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A. O. SMITH CORPORATION / ANNUAL REPORT 1970

1970

BOARD OF DIRECTORS

P. Goff Beach
President, Oscar Mayer & Co.

William O. Beers
President, Kraftco Corporation

Elisha Gray II
Chairman of the Board and
Chief Executive Officer,
Whirlpool Corporation

Urban T. Kuechle
President

Delbert L. Mills
Retired Senior Executive
Vice President, RCA

Arthur O. Smith
President, Arthur Smith Industries, Inc.

Lloyd B. Smith
Chairman and Chief Executive Officer

Morris J. Vollmer
Vice President, Finance

Carlton P. Wilson
President, Robert W. Baird & Co.

COMMITTEES

AUDIT
William O. Beers, Chairman
P. Goff Beach
Carlton P. Wilson

COMPENSATION
Elisha Gray II, Chairman
William O. Beers
Delbert L. Mills

INVESTMENT POLICY
(Employee Benefit Trust Funds)
Carlton P. Wilson, Chairman
Robert A. Rietz
Arthur O. Smith
Lloyd B. Smith
Morris J. Vollmer

OFFICERS

Lloyd B. Smith
Chairman and Chief Executive Officer

Urban T. Kuechle
President

CORPORATE STAFF

John H. Brinker
Vice President, Marketing and
International

Allan C. Crane
Vice President and Controller

Paul R. Ellis
Vice President, Manufacturing and
Planning

James N. Johnson
Vice President, Secretary and
General Counsel

Charles H. LeClaire
Vice President, Employee and
Public Relations

Robert F. McGinn
Vice President, Research and
Development

Robert A. Rietz
Vice President and Treasurer

Morris J. Vollmer
Vice President, Finance

Richard A. Wendorf
Vice President, Procurement

Donald L. Dunaway
Assistant Treasurer

John H. Lungren
Assistant Secretary and
Deputy General Counsel

J. Robert Mitchell
Assistant Treasurer

OPERATIONS

Henry O. Allen
Group Vice President,
Electric Motors, Controls and Meter Systems

John P. Diesel
Group Vice President and Chairman of
the Board, Armor Elevator Company, Inc.,
and Armor Elevator Canada Limited

Milton E. Morgan
Group Vice President,
Consumer and Agricultural Products

Dennis J. O'Connell
Group Vice President, and
President, A. O. Smith-Inland Inc.

John R. Parker
Group Vice President,
Contract Products

James E. Borchert
Vice President and General Manager,
Automotive

Wallace T. Halket
Vice President, Consumer Products

William R. Heckman
Vice President, Clark Control

John M. Richardson
Vice President, Electric Motors

John J. Stahl
Vice President, and President,
A. O. Smith Harvestore Products, Inc.

David H. Stieber
Vice President and Assistant General
Manager, Automotive

Thomas A. Sullivan
Vice President, Meter Systems

TRANSFER AGENT
Manufacturers Hanover Trust Company
New York, New York

REGISTRAR
The Chase Manhattan Bank
New York, New York

AUDITORS
Arthur Young & Company
Milwaukee, Wisconsin

THE YEAR IN BRIEF

	1970	1969	% Change
Sales	$413,097,543	$354,518,304	+17%
Earnings Before Extraordinary Items (1)	$ 7,287,004	$ 14,559,501	−50%
Per Share (1)	$2.95	$5.84	
Net Earnings	$ 9,433,004	—	—
Per Share	$3.82	—	—
Net Earnings as % of Sales	2.3%	4.1%	—
Net Earnings as % of Average Stockholders' Equity	6.6%	10.9%	—
Dividends Per Share	$1.40	$1.40	—

(1) Excludes extraordinary net gain of $2,146,000 or $.87 per share on 1970 business dispositions.

HIGHLIGHTS OF 1970

March 22 — The company announced it had sold its oil well casing production facilities to Lone Star Steel Company.

March 23 — P. Goff Beach, president of Oscar Mayer & Co., and Delbert L. Mills, senior executive vice president, RCA, (now retired), were elected to the A. O. Smith board of directors.

April 21 — The Meter Systems division announced it had obtained several large orders for service station pumps and other equipment to be used to dispense non-leaded gasoline.

June 15 — Armor Elevator Canada Limited moved into a new 150,000 square foot building near Toronto, Canada.

June 25 — A. O. Smith filed with the Securities and Exchange Commission a registration statement covering a public offering of $35 million of sinking fund debentures due July 1, 1995. The debentures were completely sold out when offered on July 21.

September 13 — Armor Elevator Company, Inc. purchased a 185,000 square foot building in Louisville, Kentucky, to expand its elevator control manufacturing facilities.

September 15 — A. O. Smith Meter Systems GmbH, a subsidiary, was formed in Hamburg, Germany, to produce petroleum meters for distribution in the Common Market.

September 25 — A. O. Smith-Inland Inc. announced it would phase out its plastic parts manufacturing plant in Ionia, Michigan, by July 1971, unless a buyer could be found before then.

September 25 — A. O. Smith announced it had to lay off several thousand production workers in Milwaukee, Wis., and Granite City, Ill., because of the General Motors strike.

September 29 — Armor Elevator Canada Limited announced it had acquired the Guardian Elevator Company of Montreal and Acadian Elevators & Machine Works Ltd. of Fabreville, Quebec.

November 24 — A. O. Smith Corporation Of Texas began installation of a 30,000 ton press—one of the largest hydraulic presses in the world—to shape steel into 40 foot lengths of line pipe.

November 30 — Employees in Milwaukee and Granite City were recalled to work with the end of the General Motors strike.

December 1 — The Consumer Products division began marketing food waste disposers — an entirely new line of products for A. O. Smith.

December 30 — Armor Elevator Company, Inc. acquired the Golden Gate Elevator Co., Inc., in San Francisco, California.

December 31 — The company had record sales for 1970 of $413,098,000 with earnings of $7,287,000, or $2.95 per share, before extraordinary gains of $2,146,000, or $.87 per share.

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LETTER TO STOCKHOLDERS

While sales increased appreciably in 1970, a number of adverse factors, mostly temporary, affected our results for the year. The lengthy U.A.W. strike against General Motors had the greatest impact, but fortunately we are again producing at a high level for this important customer and the outlook for the automotive business is good.

We are pleased that a number of our businesses had increasing sales and profits for 1970 in the face of difficult conditions during the year. Sales passed the $400 million mark for the first time. This is in part a reflection of continuing efforts to improve the balance between our businesses so that no single operation will be dominant. New businesses, new products and new markets, as well as increasing our share of markets we already serve, all contributed to this result. The sales of the Electric Motor division, Meter Systems division and A. O. Smith Harvestore Products, Inc., were at all-time highs in 1970.

To summarize, profits before extraordinary items were $7,287,004, or $2.95 per share, compared to $14,559,501, or $5.84 per share, in 1969; and sales were $413,097,543, compared to $354,518,304 in 1969.

Another highlight of the year occurred in July when the company realized proceeds from the sale of $35 million in 10¼ per cent sinking fund debentures in order to generate the necessary funds for an extensive capital expenditure program. These investments must be made to fully realize our growth opportunities and to further strengthen our competitive position.

During the year, we invested in a number of programs for these purposes. For example, two new elevator manufacturing facilities were acquired, one outside of Toronto, Ontario, and the other in Louisville, Kentucky. Heavy expenditures were made in the automotive frame business to increase efficiency as well as to prepare for new model production. It was also necessary to make major additions to production capacity at plants in Tipp City, Ohio and Mt. Sterling, Kentucky, so as to meet market demand for our electric motors.

Considering the many other replacement and improvement programs, total capital expenditures

L. B. Smith, left, and U. T. Kuechle

exceeded any prior year in our history. In addition, at year end our Armor Elevator subsidiary acquired Golden Gate Elevator Co., Inc. in San Francisco to give us a stronger position in this major market.

A number of promising new products came to the market during the past year. These included sleeve bearing electric motors, redesigned Clark TM starters, a line of food waste disposers, a small Harvestore®, and Silver Thread™ pipe introduced by our affiliate, A. O. Smith-Inland Inc.

In addition to the strike at General Motors, which resulted in our operating at a loss in the fourth quarter, there were other factors that adversely affected 1970 profits, as compared to 1969. We had a loss at A. O. Smith Corporation Of Texas, an affiliate, because of a poor line pipe market, high costs associated with a capital improvement program and the discontinuation of the manufacture of bomb casings. The market outlook for line pipe remains soft, and we are giving a lot of careful attention to this situation. Other conditions that affected earnings in 1970 included a swing in interest income versus interest expense and model changeover costs in our Automotive division.

A. O. Smith-Inland Inc. was not profitable in 1970, and in September it was announced that there would be a phase-out of operations at its Ionia, Michigan, plastic parts plant. Recently, however, an agreement was reached to sell this operation to General Tire & Rubber Company.

We took another action in 1970 that will remove us from a product line which we concluded could not meet our profit objectives. Early in the year A. O. Smith's oil well casing facilities were sold to Lone Star Steel Company.

Two highly regarded business leaders were elected to the company's board of directors during the year, P. Goff Beach, president of Oscar Mayer & Co., and Delbert L. Mills, retired senior executive vice president of RCA. F. Shepard Cornell, a member of our board for 15 years, retired during the year, and we express the thanks of many for the devotion and service he has given to A. O. Smith.

We are in some exciting growth markets, some of which are described in another section of this report. We have well engineered and reliable products, and new ones coming on stream. We have, or are prepared to invest in improved production capacity. Most importantly, however, we have an outstanding group of people within A. O. Smith capable of taking advantage of the opportunities that are available. We are optimistic that the economy in 1971 will allow us to capitalize on these conditions.

L. B. Smith

Chairman and Chief Executive Officer

U. T. Kuechle

President

A sleeve bearing motor and the most compact motor starter on the market were among new products introduced in 1970 by A. O. Smith.

OPERATIONS REVIEW

Several operating units of A. O. Smith turned in outstanding performances in 1970, setting sales and profit records. For the corporation as a whole, sales in 1970 of $413,098,000 are an all time high. Most of the sales increase is the result of the acquisitions made in 1969. But several divisions obtained significant new business in the face of the general slowdown experienced by most segments of the economy in 1970.

The slowdown of the economy, and the United Auto Workers' strike against General Motors, presented A. O. Smith with some difficult situations in 1970. These factors, together with a major model changeover in the Automotive division, a swing in interest income versus interest expense between 1969 and 1970, plus losses at the A. O. Smith Corporation Of Texas and at A. O. Smith-Inland Inc., lowered profits in 1970 from 1969 record highs.

However, certain conditions causing the lower profits were temporary in nature and, as the economy recovers, a return to better profit levels is expected in 1971.

TRANSPORTATION

A. O. Smith operating units serving the transportation market faced difficult conditions in 1970.

Both profits and sales in the Automotive division were reduced because of the General Motors strike. General Motors is A. O. Smith's largest customer and the two-month strike drastically reduced production in the company's two frame manufacturing plants. The Granite City, Illinois, plant was closed for nine and one-half weeks, while the Milwaukee plant continued to operate, but at a greatly reduced level, supplying truck frames and other parts to the company's other customers. The Automotive division continued to manufacture frames for two weeks after the strike started on September 14, and this allowed an immediate resumption of shipments to GM when the strike ended on November 20.

Prior to the strike, the Automotive division had a good year, increasing sales of both control arms and truck frames, and completing the smoothest major model changeover in the division's history.

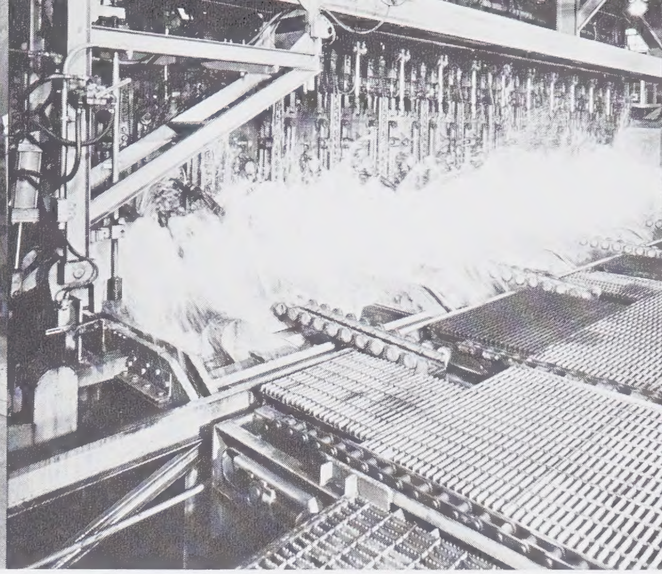
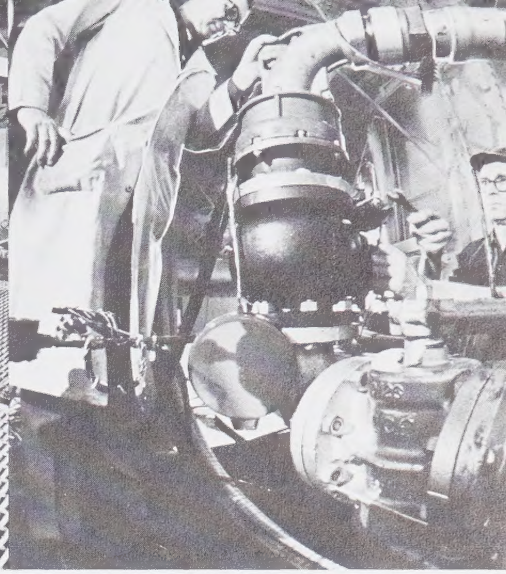
Several auto industry spokesmen have predicted a good year for automobile sales in 1971 and A. O. Smith projections confirm this outlook. The introduction of the mini cars in 1970 should have little effect on A. O. Smith's frame business (see page 26).

A. O. Smith Corporation Of Texas, a 50%-owned affiliate, operated at a loss in 1970. This was caused by lower sales due to a soft line pipe market and higher than expected start-up costs associated with the installation of a new line pipe welding process. Increased foreign competition and restrictive government regulations affecting customers make the outlook for this business uncertain. However, A. O. Smith Of Texas has the most modern production process in the U. S. and will continue an aggressive sales program aimed at obtaining a larger share of the U. S. market.

Sales of the Railroad Products division increased in 1970 over 1969, primarily because of increasing shipments of large structural signs used in an automobile dealer identification program.

A. O. Smith-Inland Inc., a 50%-owned affiliate, announced in 1970 that it planned to close the Ionia, Michigan, plant. The plant manufactures glass reinforced plastic parts mainly for the automotive industry and has been operating at a loss. Early in January 1971, it was announced that an agreement in principle had been reached to sell the Ionia plant to General Tire & Rubber Co. The sale was completed on January 31, 1971.

The Powder Metallurgy division of A. O. Smith-Inland

Thousands of A. O. Smith service station pumps were sold in 1970 for use by major oil companies to dispense lead-free gasoline. A. O. Smith engineers designed a massive die-quench machine to water-cool truck side rails, up to 40 feet in length, insuring light weight but high strength. Engineers at the Meter Systems division check aircraft refueling valves on a highly sophisticated test stand constructed during 1970.

produced a new alloy powder during 1970. This low alloy manganese nickel molybdenum powder can be used for either forged or compacted parts and should have wide application in the automotive and farm equipment industries. Sales in the division were hurt in 1970 by the slowdown of the economy and by the General Motors strike.

ELECTRICAL

Sales of the Electric Motor division increased 20% in 1970 over 1969 and set an all time record for the division. A. O. Smith motors are winning a bigger and bigger share of the growing air conditioning and refrigeration market. Even greater penetration of the air conditioning market is expected with the introduction in 1970 of a new line of fractional horsepower sleeve bearing motors.

The expansion program in the Electric Motor division continued in 1970 with the completion of an 85,000 square foot building addition in Tipp City, Ohio, plus extensive machinery additions at both Tipp City and Mt. Sterling, Kentucky. With the installation of the automatic sleeve bearing motor test line in Tipp City, the Electric Motor division has one of the most modern electric motor production facilities in the world.

In England, Bull Motors Limited, an A. O. Smith subsidiary, added production of hermetic motors in 1970. These are the same type A. O. Smith motors being produced in the U. S. They are being sold to customers for use in the rapidly growing European air conditioning and refrigeration markets.

Sales of the Clark Control division in 1970 were below 1969 levels, because many customers cut back on capital expenditure programs. The division continued its program of new product development and redesign and during 1970, Clark introduced a new line of motor starters and contactors, the most compact starters now on the market.

The Pulsar,™ a static DC motor drive, introduced in 1969 by Clark, was well received by customers in 1970. Typical orders have come from plastic parts manufacturers, wire and cable manufacturers, machine tool manufacturers and a major tire producer, all of whom require highly reliable motor speed controls.

A. O. Smith's Electronic Systems division, which manufactures automated fuel handling systems, was merged with the Meter Systems division in 1970, in order to unify engineering and marketing programs.

PETROLEUM

Several large orders for service station equipment to be used to dispense non-lead and low-lead gasoline helped the Meter Systems division set a sales record in 1970, although this program was reduced toward the end of the year. In September, the division began manufacturing its new line of industrial meters, which will be marketed to the chemical processing industry.

The division completed construction of a highly sophisticated aircraft refueling test stand during 1970, at its plant in Erie, Pennsylvania, which gives A. O. Smith the opportunity to obtain a larger share of the airport refueling valve and meter market. This market is expanding because most of the world's major airports must install equipment able to handle the new jumbo aircraft, including the 747. A. O. Smith is already supplying the valves for this program at Kennedy International Airport in New York.

A. O. Smith established a new subsidiary in Germany in 1970 to produce the company's line of petroleum meters. A. O. Smith Meter Systems GmbH began

A. O. Smith added to its line of swimming pool heaters in 1970 with a uniquely designed round heater approved by the American Gas Association for outdoor installation. In Canada in 1970, Armor Elevator Canada Limited opened a new 150,000 square foot manufacturing plant.

operations in a plant in Hamburg, Germany, in September, assembling 2, 3 and 4 inch petroleum meters for distribution in the Common Market.

Early in 1970, the company announced it had sold its oil well casing production facilities to Lone Star Steel Company. The long range outlook for sales and profits of this product line did not meet corporate objectives, particularly in view of limited participation in a specialized portion of the oil well casing market.

The Reinforced Plastics division of A. O. Smith-Inland Inc., located in Little Rock, Arkansas, introduced a new piping system in 1970 named Silver Thread, and expanded the size ranges of its existing lines. The new pipe is used in chemical and industrial plants and oil fields where pipe is subjected to high temperatures, corrosive conditions and constant exposure to the sun. The division also recorded the best year in its history in 1970, setting new sales records.

BUILDING

Armor Elevator Company, Inc., a subsidiary, expanded along several fronts in 1970. In Canada, a new 150,000 square foot plant was constructed to house the headquarters and main manufacturing facilities of Armor Elevator Canada Limited. The Canadian elevator operation changed its name in 1970 from Horn Elevator to Armor to provide a more uniform marketing approach throughout North America. Also in Canada, Armor acquired the Guardian Elevator Company Limited of Montreal and Acadian Elevators & Machine Works Ltd. of Fabreville, Quebec.

In the U. S., Armor purchased a 185,000 square foot building in Louisville, Kentucky, to expand its elevator control manufacturing division. And at year end, Armor acquired the Golden Gate Elevator Co., Inc., in San Francisco, California, to give the company a stronger position in the fifth largest elevator market in the U. S. Prior to the acquisition, Armor and Golden Gate had been working jointly on a $1.1 million contract to build and install passenger elevators for the San Francisco Bay Area Rapid Transit System.

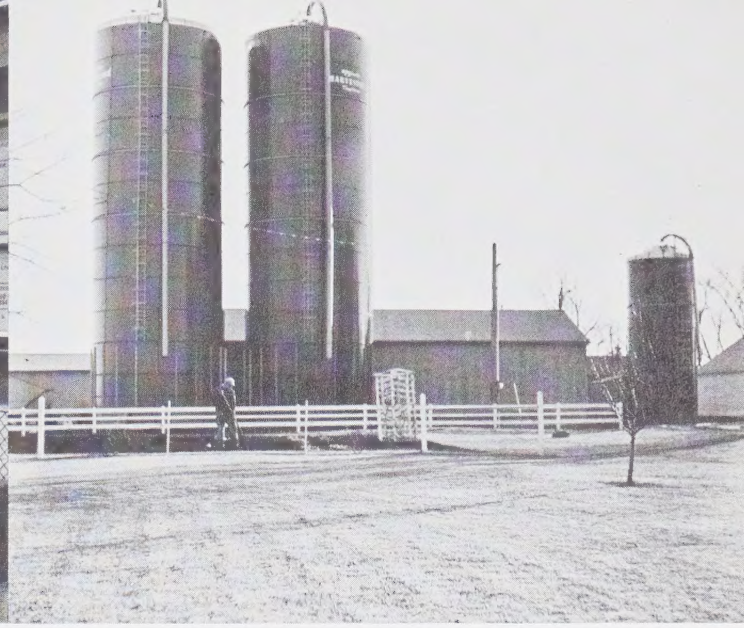
Sales of A. O. Smith water heaters continued to increase during 1970. The Consumer Products division introduced several new water heating products during the year, including a new residential electric water heater which was the first on the market designed and built to meet the standards recommended by the electric utility industry's Edison Electric Institute. A new swimming pool heater with a unique round design, which is approved by the American Gas Association for outdoor installation, was also introduced.

In an entirely new market, A. O. Smith introduced in 1970 a complete line of residential food waste disposers. The company began marketing seven models, ranging in price from less than $50 to more than $100. The disposers, which have unique design characteristics, will be distributed through the more than 600 plumbing wholesalers who already handle A. O. Smith water heaters.

AGRICULTURAL

A. O. Smith's expanded role in agriculture was evident in 1970 as the company continued its leadership in farm feeding systems technology.

A. O. Smith Harvestore Products, Inc., a subsidiary, increased its sales for the ninth straight year in 1970, with nearly 40% of the sales to customers who already own one or more Harvestores. During 1970, the subsidiary introduced a 14 x 32 foot structure which uses a newly designed breather system. This new "mini" Harvestore, which it has been labeled for marketing purposes, will be aimed at the small farmer and at bigger



Marketing of an entirely new product, food waste disposers, was begun by A. O. Smith in 1970. A new small Harvestore, designed to open new markets for A. O. Smith Harvestore Products, Inc., was introduced in 1970.

farmers who may want to make a smaller investment while trying their first Harvestore system. In addition, the design of the mini Harvestore makes it more practical for tenant farmers to purchase the structure and then take it with them if they move.

Howard Harvestore Ltd., an affiliate of A. O. Smith Harvestore Products, Inc., expanded its operations in 1970 by selling Harvestore systems in such countries as Japan, Australia, Italy and Brazil as it integrated Harvestore dealers around the world into its organization.

Advanced Feeding Systems, Inc., acquired by Harvestore Products in early 1970, became the Advanced division during the year, fully integrating its belt feeders, mills, conveyors and weighers with the Harvestore system.

Layne & Bowler Pump Company, another subsidiary, established a national marketing organization in 1970 for its Raincat® irrigation system. New dealers, many of them part of the Harvestore dealer organization, were acquired in all parts of the U. S. Raincat sales, while still small, have great potential and should expand as financing eases for land development and as more and more dealers are brought into the organization.

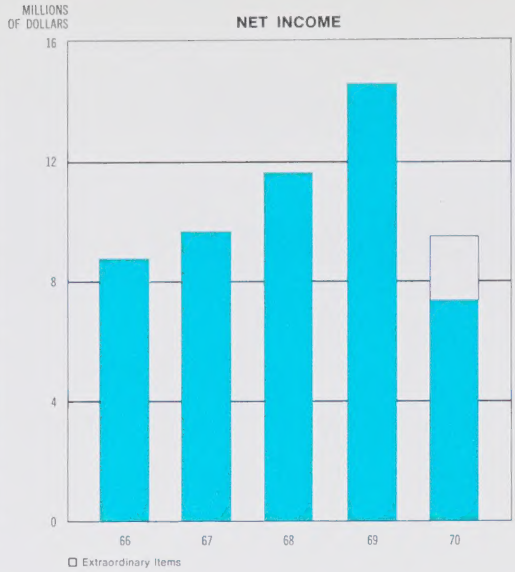
AgriStor Credit Corporation played an important role in supplying some of the financing required to support the sales growth of Raincat, and AgriStor continues its important role in support of Harvestore sales. Lower interest rates during the last three quarters of 1970 helped AgriStor significantly increase its profits.

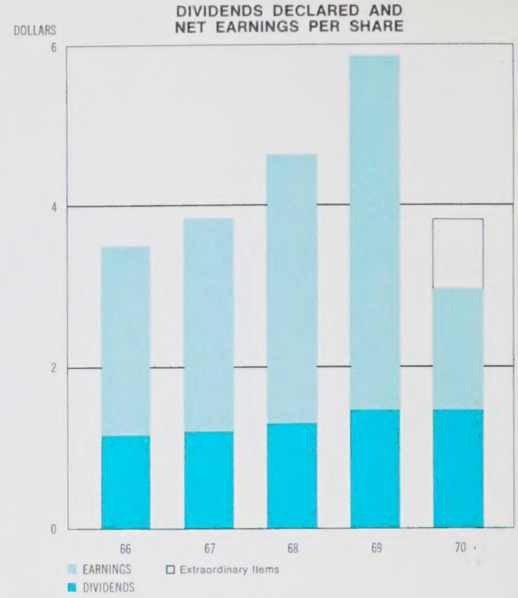
EMPLOYEE RELATIONS

The company employed the highest number of people in its history during 1970, with average employment reaching 16,008 persons. During 1970, the company negotiated seven labor agreements covering 1,750 employees. There was one strike, of less than two weeks duration, at the Armor Elevator plant in New York.

Three labor agreements at the Granite City, Illinois, frame plant were scheduled for negotiation in 1970, but this was delayed because of a change in bargaining units at that plant. The United Auto Workers, through a National Labor Relations Board election, replaced the International Brotherhood of Boilermakers as the collective bargaining agent for Granite City's plant maintenance and production workers.

During 1971, 21 contracts of the company or its subsidiaries (including three at Granite City and seven at Milwaukee) expire, covering approximately 9,900 employees.



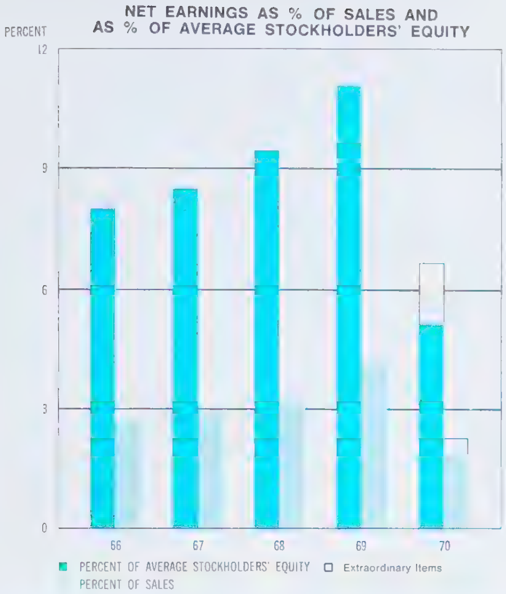


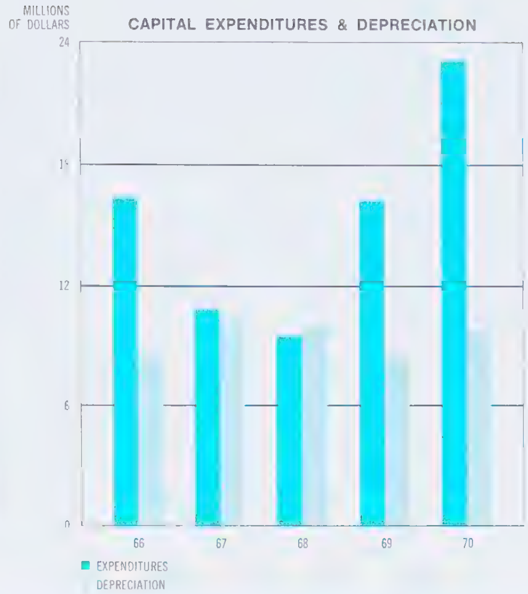
SALES AND EARNINGS BY LINE OF BUSINESS
($ Millions)

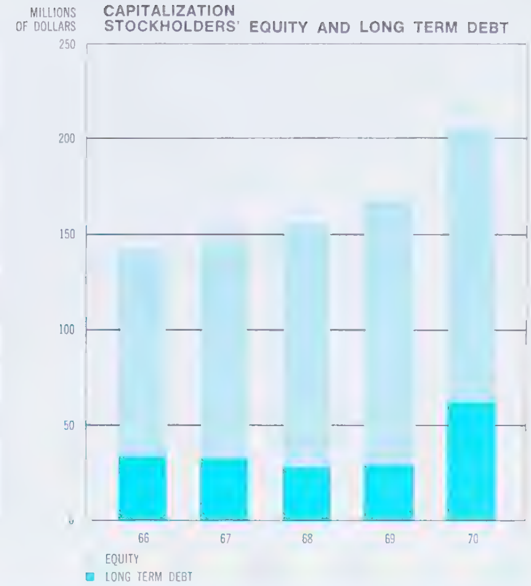
	Sales				Earnings			
	$		%		$		%	
	1970	1969	1970	1969	1970	1969	1970	1969
TRANSPORTATION ..... Automobile and truck frames, automotive components, railroad equipment and line pipe.	180.7	205.6	41	54	3.9	19.9	16	55
ELECTRICAL ..... Electric motors, electrical controls and drive systems.	82.4	70.2	19	19	6.5	5.5	26	15
PETROLEUM ..... Meter systems, valves, gasoline pumps, oil well casing and reinforced plastic pipe.	51.2	41.6	12	11	4.8	3.3	20	9
BUILDING ..... Water heaters, heating equipment and passenger and freight elevators.	77.8	31.3	18	8	5.3	4.2	22	12
AGRICULTURAL ..... Livestock feed storage, handling and feeding systems, vertical turbine pumps and irrigation equipment.	47.0	30.8	10	8	3.9	3.0	16	9
	439.1	379.5	100	100	24.4	35.9	100	100
MISCELLANEOUS & CORPORATE	(3.1)	(.7)			(8.8)	(5.6)		
	436.0	378.8			15.6	30.3		
EQUITY IN AFFILIATES INCLUDED ABOVE	22.9	24.3			(2.3)	.2		
PER CONSOLIDATED STATEMENT	413.1	354.5			17.9	30.1		

Notes: The proportionate equity in sales and pre-tax earnings of affiliated companies has been included. Businesses acquired during 1969 and 1970 are included from dates of acquisition. Information relative to the bomb casing business, formerly operated by an affiliated company, has been excluded.

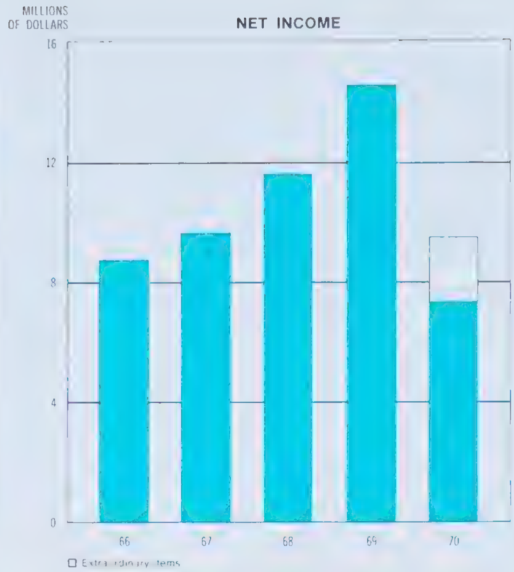
Earnings of $24.4 and $35.9 million are before income taxes, extraordinary items and unallocated corporate expense. Consolidated pre-tax earnings of $17.9 and $30.1 million exclude extraordinary items.

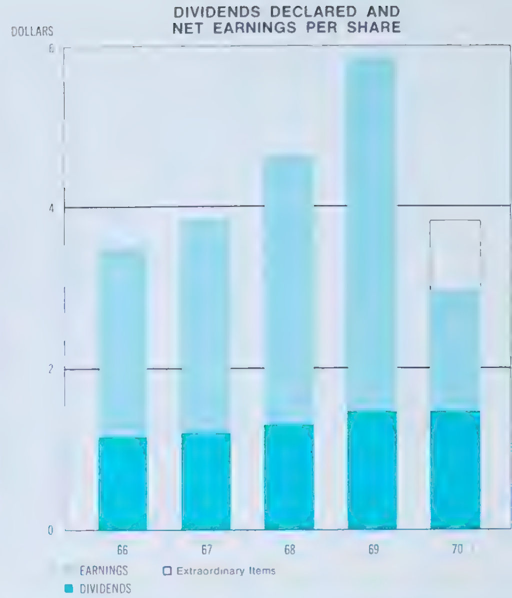






A. O. SMITH CORPORATION FINANCIAL REVIEW 1970





SALES

Sales of A. O. Smith Corporation and its consolidated subsidiaries reached a record $413,098,000 in 1970, an increase of 17% over 1969 sales of $354,518,000. Major gains in sales in several of the company's divisions and subsidiaries, plus the sales of businesses acquired in 1969, more than offset a decline in sales in the Automotive division caused by the United Auto Workers' union strike against General Motors Corporation. The distribution of sales by the company's major divisions and subsidiaries in 1970 and 1969 was as follows:

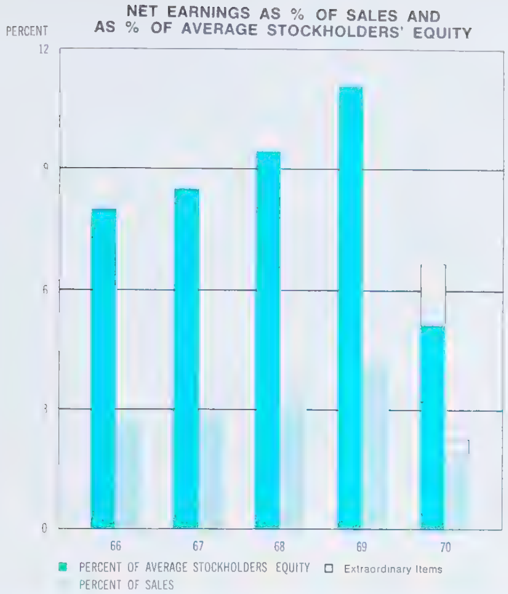
	$ In Millions	
	1970	1969
Automotive	$154	$176
Electric Motors (including Bull Motors Limited)	59	45
Armor Elevator Company, Inc. and Armor Elevator Canada Limited	43	0
Consumer Products (water heating equipment)	34	31
A. O. Smith Harvestore Products, Inc.	34	29
Meter Systems	27	19
Electrical Controls (including Canadian Controllers Ltd.)	24	25
Oil Well Casing	21	20
Layne & Bowler Pump Company	11	2

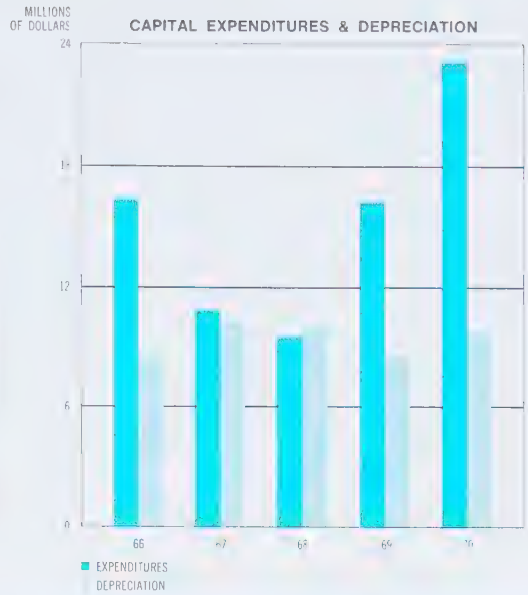
Sales of acquired businesses are included from their date of acquisition in 1969. Total estimated 1969 sales of Bull Motors Limited, Armor Elevator Company, (including Armor Elevator Canada Limited), and Layne & Bowler Pump Company (the companies acquired in 1969) were $3, $32, and $11 million respectively.

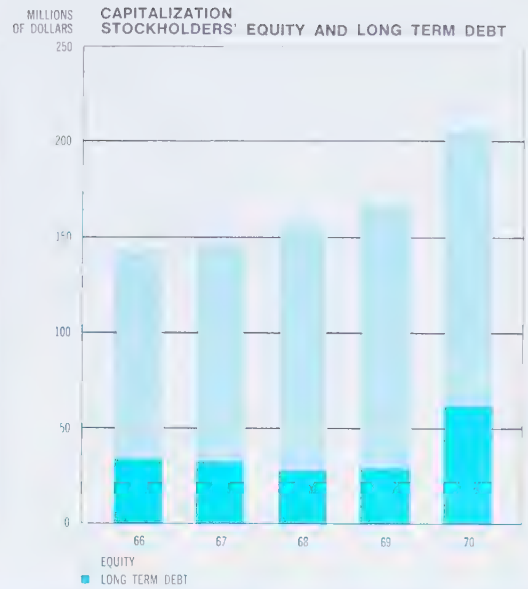
International sales in 1970 were $34 million, or 8% of the company's consolidated sales. Of this total, $27 million was produced by the company's operations located outside of the United States, with the remainder being exported from U. S. plants.

EARNINGS

Earnings for the full year, excluding a net extraordinary gain, were $7,287,000, or $2.95 per share,







compared with $14,560,000 or $5.84 per share in 1969. The net extraordinary gain was comprised of a gain on the sale of the company's oil well casing facilities to Lone Star Steel Company early in 1970, and provisions for losses related to the discontinuance of a product line of the Railroad Products division and the sale of the molded reinforced plastics business of A. O. Smith-Inland Inc., an affiliate. Net earnings, including the extraordinary gain, were $9,433,000, or $3.82 per share. The provision for taxes was $8,900,000 in 1970, and $15,200,000 in the prior year. The effective tax rates in 1970 and 1969 were 50% and 51%, respectively.

The decline in earnings in 1970 was attributable to three conditions that occurred during the year:

- The impact of the United Auto Workers' union strike against General Motors Corporation, coupled with learning costs related to the new model changeover in the Automotive division.
- Losses at A. O. Smith Corporation Of Texas, an affiliate company, caused by lower sales of line pipe, higher than anticipated costs associated with installing a new line pipe welding process and discontinuance of the manufacture of bomb casing.
- An increase in interest expense associated with our new long-term debt and a decline in interest income.

For the fourth quarter of 1970, the company had an operating loss of $800,000, or $.32 per share. Net earnings were $3,886,000, or $1.57 per share in the similar period last year.

DIVIDENDS

Dividends paid on common stock amounted to $3,457,000 in 1970 and $3,494,000 in 1969. The dividends paid were $1.40 per share in both years. Dividends have been paid in each year since 1940. Certain of the company's long-term debt agreements contain provisions which limit the amount available for payment of cash dividends. The amount of retained earnings available for dividends under the most restrictive of these provisions was $14,500,000 at December 31, 1970.

WORKING CAPITAL

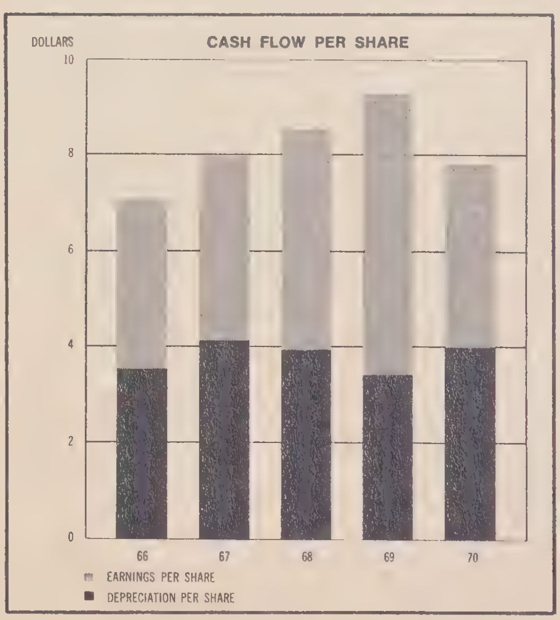
Working capital totalled $95,400,000 at year end 1970. At December 31, 1969, working capital amounted to $74,424,000. Current assets were 2.5 times current liabilities at December 31, 1970, compared with 2.1 last year. A statement setting forth the source and use of working capital for the years 1970 and 1969 is shown on page 16.

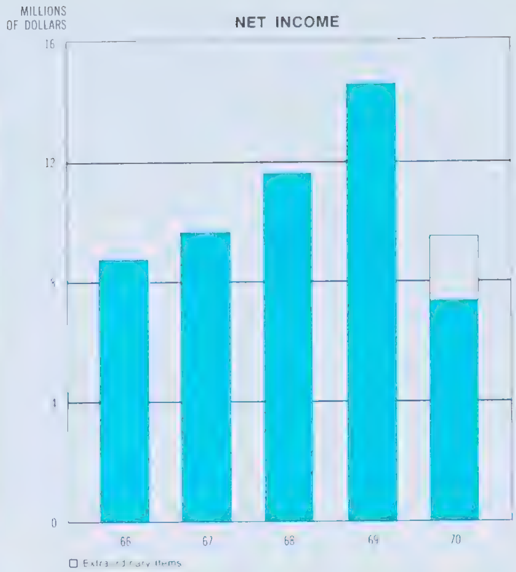
CAPITAL EXPENDITURES

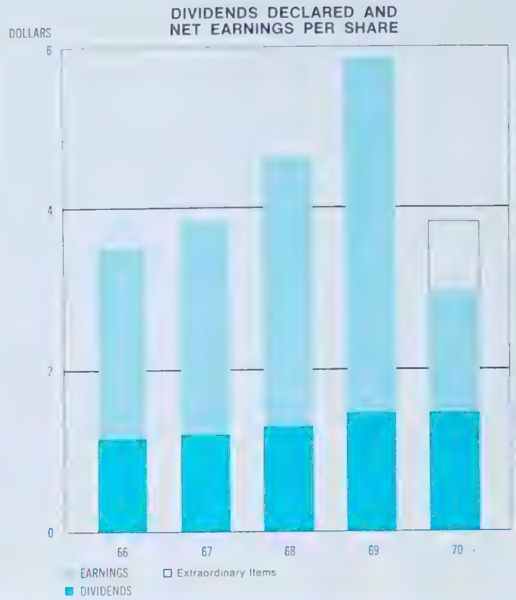
During 1970, a record $23,267,000 was invested in improvements and expansion of facilities. Capital expenditures amounted to $16,275,000 in the previous year. It is anticipated that the large expenditures made in the Electric Motor and Armor Elevator segments of the company will make an important contribution to the future progress of these operations. Significant expenditures were also made in the Automotive division as a result of the major model changeover program.

CASH FLOW

Cash flow, defined as the sum of net earnings and depreciation, totalled $19,284,000, or $7.81 per share in 1970. The prior year's cash flow amounted to $23,088,000, or $9.26 per share. The impact of reduced earnings more than offset increased depreciation during 1970. Depreciation amounted to $9,851,000 and $8,528,000 in 1970 and 1969, respectively.







LONG-TERM DEBT

In July, $35 million 10¼% sinking fund debentures due July 1, 1995, were sold to the public to provide funds for the company's capital expenditure program. Sinking fund payments will commence in 1976. The debentures may not be redeemed for a period of ten years as part of any refunding operation involving borrowing at an interest cost of less than 10.31% per annum. Total debt, due after one year, including lease purchase obligations, totalled $62,224,000 at December 31, 1970, compared to $28,866,000 at the end of 1969. Long-term debt was 44% of stockholders' equity at December 31, 1970, and 21% at December 31, 1969. A schedule of the company's long-term debt is shown in note 3 to the financial statements on page 17.

STOCKHOLDERS' EQUITY

Stockholders' equity increased to $142,936,000 at December 31, 1970, from $138,003,000 a year ago. Earnings, excluding the net extraordinary gain, represented a return on average stockholders' equity of 5.1% in 1970, down from 10.9% in the prior year.

As of December 31, 1970, there were 2,519,749 shares of common stock outstanding, including 66,019 shares held as treasury stock. During the year, the company continued a program to acquire 100,000 shares of its common stock on the open market. This program was started in 1969, so that shares would be available for issue upon exercise of employee stock options, acquisitions or other proper corporate uses which may arise, without diluting the proportionate interest of present stockholders. A total of 38,902 shares was purchased in 1970 at a cost of $1,495,000, bringing the total number of shares reacquired in 1970 and 1969 to 77,802. Treasury stock transactions (in shares) during the year were as follows:

Balance 12-31-69	43,540
Acquired	38,902
Issued for stock option exercises	16,423
Balance 12-31-70	66,019

STOCK OPTIONS

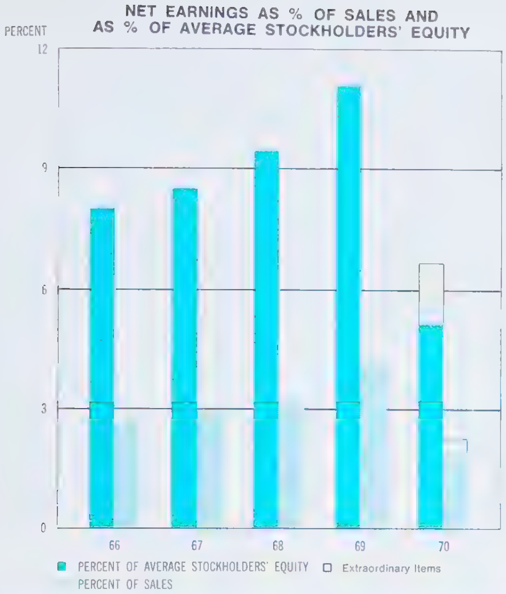
At year end, 179,391 shares of common stock (including 18,217 shares of treasury stock) were reserved for stock options under the company's 1962 Restricted Stock Option Plan, 1964 Qualified Stock Option Plan and 1970 Employees' Stock Option Plan. The 1970 plan will be submitted to stockholders for approval at their annual meeting in April 1971.

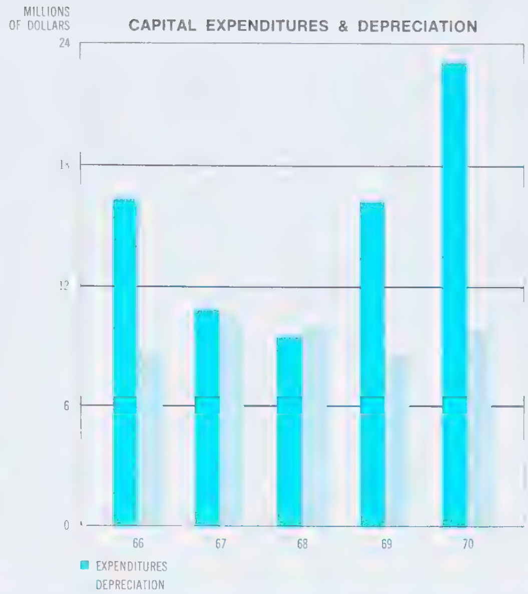
Option transactions (in shares) during the year were as follows:

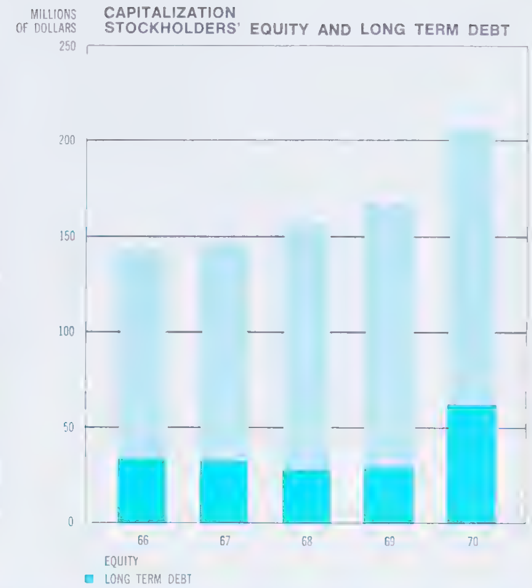
Options outstanding 12-31-69	72,095
Granted	25,000
Exercised	16,423
Options outstanding 12-31-70	80,672

In addition to the 80,672 options outstanding at December 31, 1970, there were non-qualified stock options totalling 48,050 shares outstanding at the end of the year. The non-qualified stock options were granted under the 1970 plan to employees holding an equivalent number of qualified stock options granted under the 1964 and 1970 plans. The optionee may exercise either the qualified or non-qualified stock option and the option not so exercised is then cancelled. The shares released by such cancelled options then become available for new option grants.

As of December 31, 1970, there were 54,569 shares available for additional grants, including 51,950 shares under the aforementioned 1970 plan. Further information regarding stock options is contained in note 5 to the financial statements on page 18.



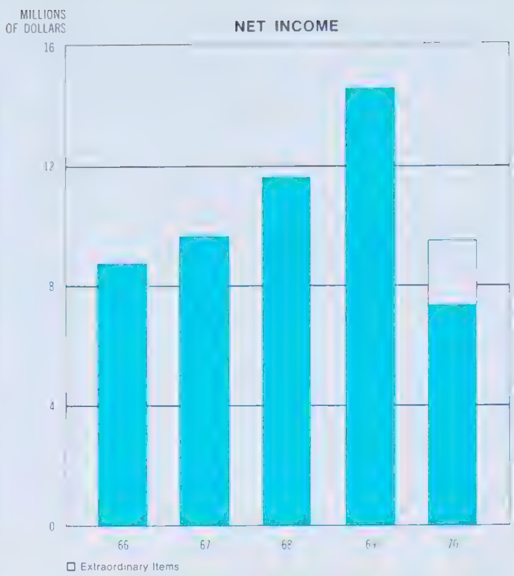


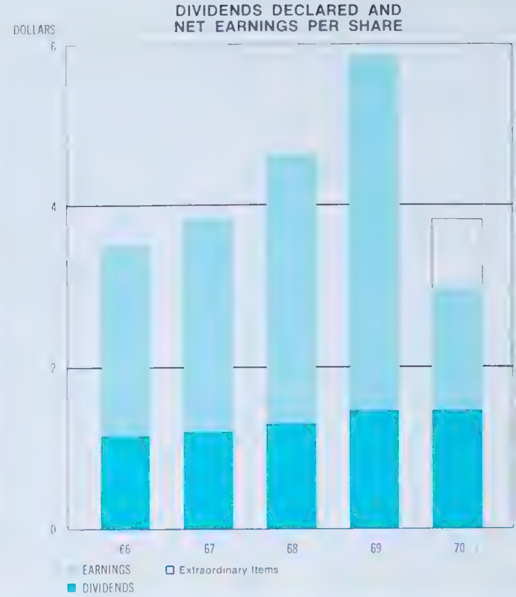


A. O. SMITH CORPORATION CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS
Years ended December 31, 1970 and 1969

	1970	1969
EARNINGS:		
NET SALES	**$413,097,543**	$354,518,304
OPERATING COSTS AND EXPENSES:		
Cost of goods sold	**358,911,167**	298,065,604
Selling, general and administrative	**34,375,607**	29,288,738
	393,286,774	327,354,342
PROFIT FROM OPERATIONS	**19,810,769**	27,163,962
OTHER INCOME (DEDUCTIONS):		
Interest expense	**(4,224,122)**	(1,445,475)
Miscellaneous — net	**2,337,701**	4,354,339
	(1,886,421)	2,908,864
EARNINGS BEFORE INCOME TAXES	**17,924,348**	30,072,826
PROVISION FOR INCOME TAXES	**8,900,000**	15,200,000
EARNINGS BEFORE EQUITY IN LOSSES OF UNCONSOLIDATED AFFILIATES AND EXTRAORDINARY ITEMS	**9,024,348**	14,872,826
EQUITY IN LOSSES OF UNCONSOLIDATED AFFILIATES — NET	**1,737,344**	313,325
EARNINGS BEFORE EXTRAORDINARY ITEMS	**7,287,004**	14,559,501
EXTRAORDINARY ITEMS, NET OF APPLICABLE INCOME TAXES OF $810,000 (Note 6)	**2,146,000**	—
NET EARNINGS	**$ 9,433,004**	$ 14,559,501
PER SHARE OF COMMON STOCK:		
Earnings before extraordinary items	**$2.95**	$5.84
Extraordinary items	**.87**	—
Net earnings	**$3.82**	$5.84
RETAINED EARNINGS:		
BALANCE AT BEGINNING OF YEAR	**$101,197,733**	$ 90,131,758
NET EARNINGS	**9,433,004**	14,559,501
	110,630,737	104,691,259
CASH DIVIDENDS, $1.40 per share	**3,456,506**	3,493,526
BALANCE AT END OF YEAR (Note 3)	**$107,174,231**	$101,197,733

See accompanying notes.

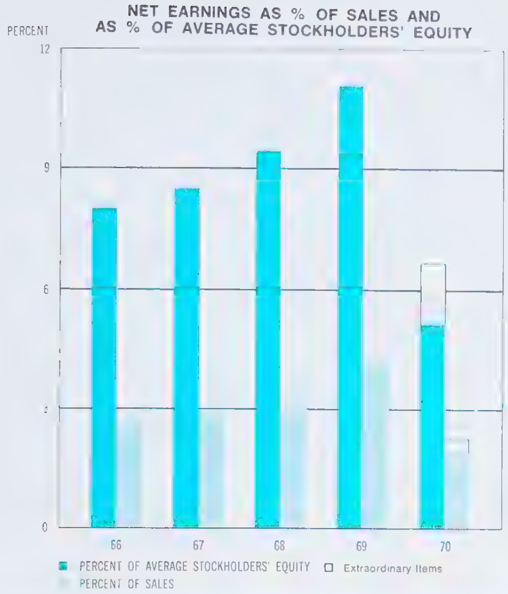


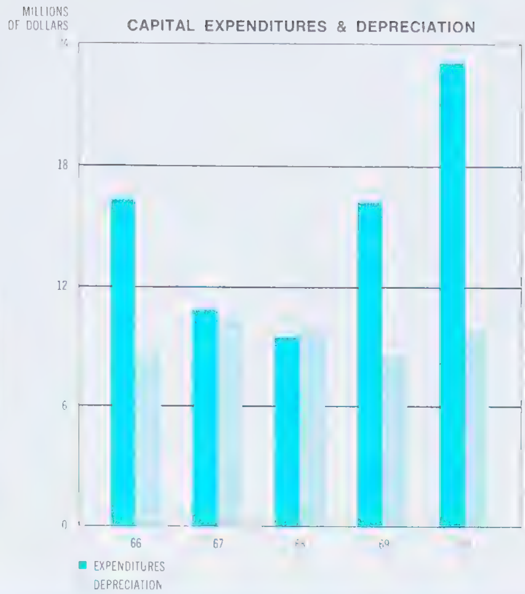


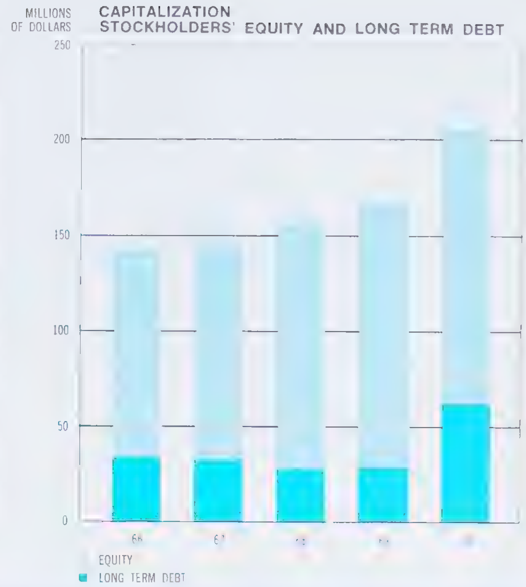
A. O. SMITH CORPORATION CONSOLIDATED BALANCE SHEET
December 31, 1970 and 1969

ASSETS	1970	1969 (Note 8)
CURRENT ASSETS:		
Cash	$ 7,914,301	$ 9,690,781
Marketable securities, at cost (approximates market)	4,900,000	1,000,000
Receivables	55,724,364	50,017,000
Inventories, at lower of cost, (first-in/first-out) or market:		
Finished goods	20,668,040	23,144,442
Work in process	39,601,718	30,988,730
Raw materials and supplies	25,463,768	22,790,397
	85,733,526	76,923,569
Prepaid expenses	3,764,205	2,305,487
Total current assets	158,036,396	139,936,837
OTHER ASSETS:		
Investments in and advances to unconsolidated finance subsidiary and affiliated companies (50%-owned) (Note 1)	15,332,425	14,749,960
Prepaid pension costs (Note 2)	3,600,000	3,600,000
Other, at cost	5,892,790	5,338,457
Total other assets	24,825,215	23,688,417
PLANT AND EQUIPMENT, AT COST:		
Land	4,753,794	4,467,732
Buildings (less accumulated depreciation, 1970 — $24,885,565; 1969 — $24,063,239)	23,504,282	19,837,077
Equipment (less accumulated depreciation, 1970 — $73,824,675; 1969 — $72,246,516)	58,639,501	50,141,967
Net plant and equipment	86,897,577	74,446,776
DEFERRED MODEL CHANGEOVER COSTS, LESS AMORTIZATION	2,281,569	1,053,800
EXCESS COST OF INVESTMENT IN SUBSIDIARIES OVER NET ASSETS AT DATE OF ACQUISITION, LESS AMORTIZATION (40-year basis)	6,096,195	5,342,832
	$278,136,952	$244,468,662

See accompanying notes.

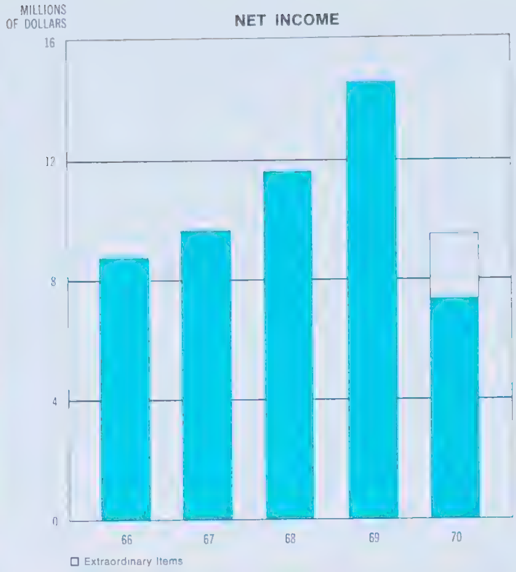


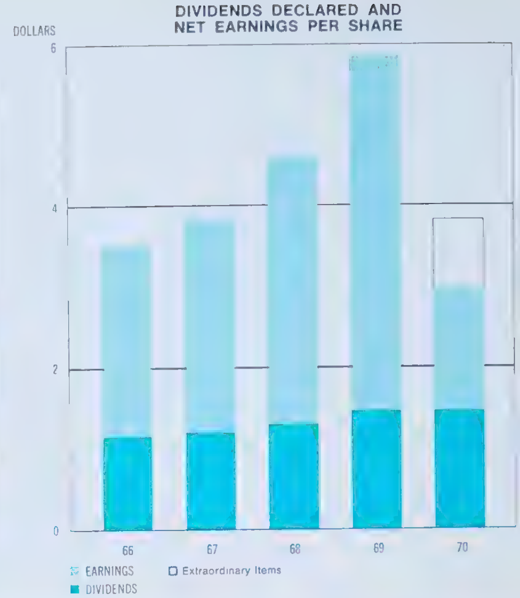




LIABILITIES AND STOCKHOLDERS' EQUITY	1970	1969 (Note 8)
CURRENT LIABILITIES:		
Notes payable — banks and others	**$ 4,098,828**	$ 4,965,260
Accounts payable and accrued liabilities	**50,109,880**	49,516,506
Income taxes	**6,182,426**	8,695,059
Long-term debt due within one year	**2,245,000**	2,335,917
Total current liabilities	**62,636,134**	65,512,742
LONG-TERM DEBT DUE AFTER ONE YEAR (Note 3)	**62,224,488**	28,865,926
DEFERRED FEDERAL INCOME TAXES	**6,095,000**	5,467,725
DEFERRED CREDITS, LESS AMORTIZATION (Note 4)	**4,245,355**	6,366,437
MINORITY INTEREST	**—**	253,302
STOCKHOLDERS' EQUITY:		
Preferred stock, $1 par value — authorized 1,000,000 shares; issued, none	**—**	—
Common stock, $5 par value (Note 5):		
Authorized, 6,000,000 shares; issued, 2,519,749 shares	**12,598,745**	12,598,745
Capital in excess of par value	**25,820,774**	26,054,909
Retained earnings (Note 3)	**107,174,231**	101,197,733
Treasury stock, at cost, 1970 — 66,019 shares; 1969 — 43,540 shares	**(2,657,775)**	(1,848,857)
Total stockholders' equity	**142,935,975**	138,002,530
	$278,136,952	$244,468,662

See accompanying notes.



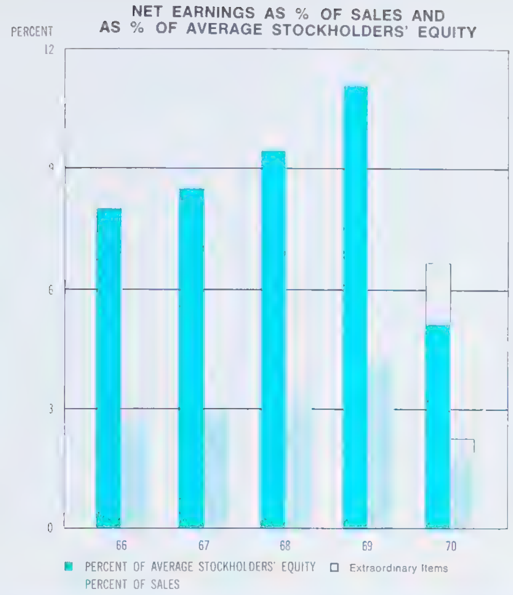


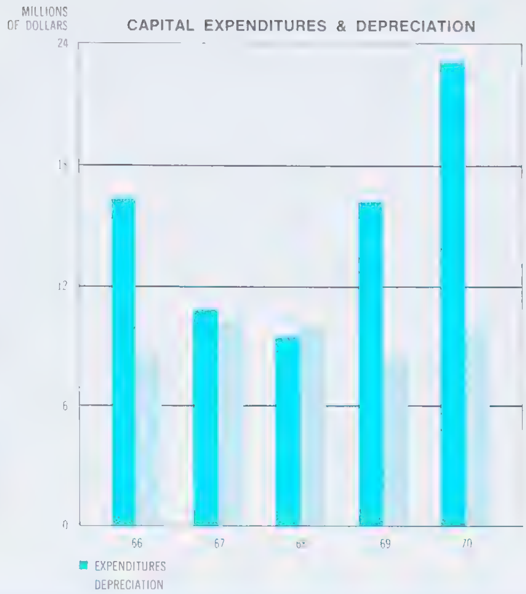
A. O. SMITH CORPORATION CONSOLIDATED STATEMENT OF SOURCE AND USE OF WORKING CAPITAL

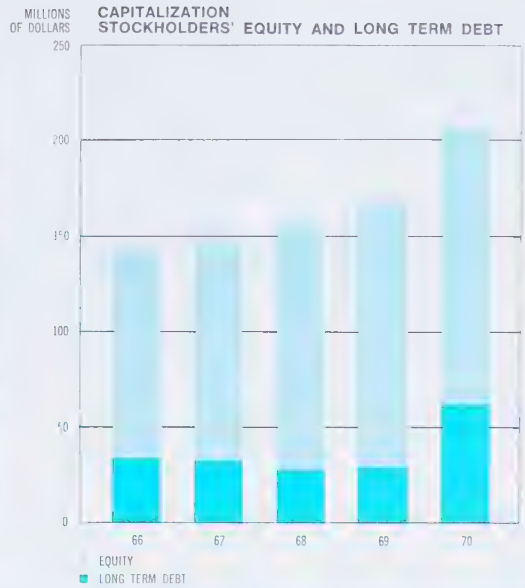
Years ended December 31, 1970 and 1969

	1970	1969 (Note 8)
SOURCE OF WORKING CAPITAL:		
Net earnings	**$ 9,433,004**	$ 14,559,501
Depreciation	**9,850,821**	8,528,001
Plant and equipment disposals	**1,388,145**	336,796
Deferred federal income taxes	**627,275**	925,000
Equity in losses of unconsolidated affiliates	**1,737,344**	313,325
Other items not involving working capital	**709,201**	430,551
	23,745,790	25,093,174
Proceeds from sale of debentures, less related costs of $708,776	**34,291,224**	—
Proceeds from sale of operating assets of certain divisions, less provision for income taxes on gain thereon (Note 4)	**—**	6,433,284
Long-term borrowings — banks	**—**	2,080,000
Proceeds from exercise of stock options	**451,797**	700,028
	58,488,811	34,306,486
USE OF WORKING CAPITAL:		
Cash dividends paid	**3,456,506**	3,493,526
Payments on long-term debt	**1,641,438**	1,775,000
Plant and equipment expenditures	**23,267,000**	16,275,462
Investments in subsidiaries and affiliates	**5,450,815**	19,162,079
Prepaid pension costs	**—**	900,000
Purchase of treasury stock	**1,494,850**	1,719,298
Deferred model changeover expenditures	**1,936,001**	1,254,626
Other	**266,034**	614,760
	37,512,644	45,194,751
INCREASE (DECREASE) IN WORKING CAPITAL	**$20,976,167**	$ (10,888,265)

See accompanying notes.







A. O. SMITH CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1970

1. Principles of consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries except for its wholly-owned finance subsidiary, AgriStor Credit Corporation. The investments in and advances to the finance subsidiary and affiliates (50%-owned) are carried at cost plus equity in undistributed net earnings since acquisition.

2. Retirement plans

The Company and its consolidated subsidiaries have non-contributory pension plans covering substantially all employees. Total pension expense for 1970 and 1969 was $3,830,000 and $4,115,000, respectively, which amounts include current cost plus interest on unfunded prior service cost for all plans. In addition, the expense includes, for two plans (for which the actuarially computed value of vested benefits under the plans exceeds the assets of related trusts by $22,600,000 as of December 31, 1970), a 40-year amortization of the prior service cost. The present policy is to fund pension cost accrued. The board of directors has authorized contributions to the pension trusts of $3,600,000 in excess of amounts charged to earnings; this amount is shown as prepaid pension costs in the balance sheet and the applicable deferred federal income taxes have been provided.

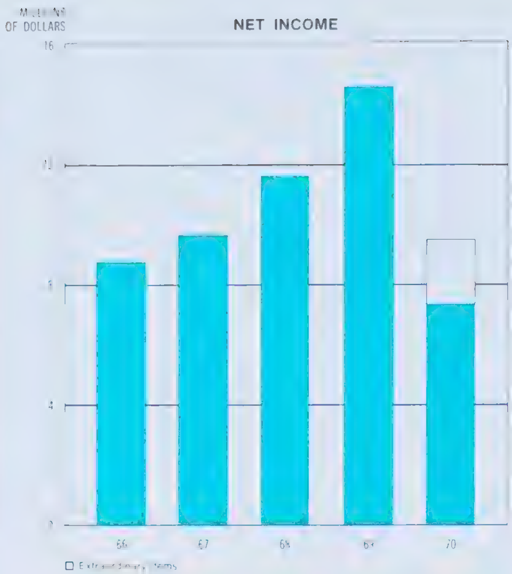
3. Long-term debt and restrictions on dividend payments

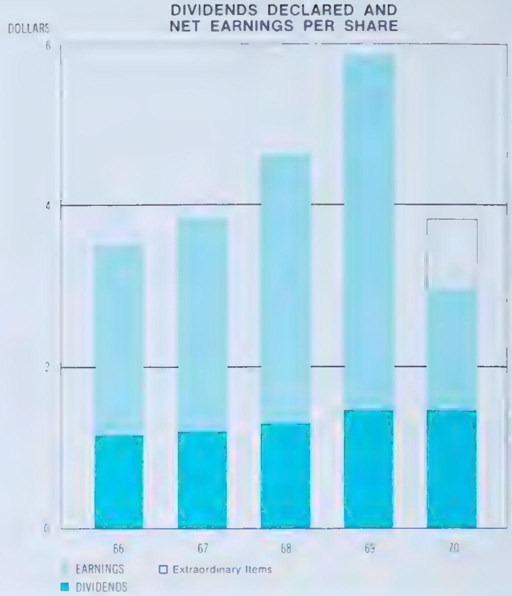
Long-term debt at December 31, 1970 is as follows:

10¼% sinking fund debentures	$35,000,000
4¾% notes payable, due $1,600,000 annually — final maturity July 1, 1983	20,800,000
Lease purchase obligations expiring 1984 and 1986, interest rates 4% to 6% per annum	3,960,000
Notes payable — banks (Eurodollar and Sterling), due in 1974, current interest rates 9% to 11% per annum	2,080,000
9½% notes, payable in quarterly installments of $37,383 through November 1, 1979 (secured by the plant and equipment of Armor Elevator Canada Limited, a consolidated subsidiary)	1,350,000
Miscellaneous mortgage notes, due 1971 through 1975, interest rates 4½% to 8½%	1,279,488
	64,469,488
Less amount due within one year	2,245,000
	$62,224,488

The indenture relating to the 10¼% sinking fund debentures requires sinking fund payments of not less than $1,750,000 and not more than $3,500,000 on July 1 in each year beginning with the year 1976 to and including the year 1994. The right to make sinking fund payments in excess of $1,750,000 in any one year is not cumulative, and no such excess payment will relieve the Company of its obligation to make minimum sinking fund payments. The debentures are redeemable through operation of the sinking fund annually beginning July 1, 1976, at the principal amount thereof or at any time at the Company's option, as a whole or in part, at a redemption price of 109.75% to July 1, 1971, and at prices declining .424% thereafter on each July 1.

The agreements relating to the 4¾% notes payable and the indenture relating to the 10¼% sinking fund debentures contain provisions restricting the payment of cash dividends and the retirement or acquisition of shares of the Company's common stock. Under the more restrictive of these provisions, retained earnings of $14,500,000 was not so restricted at December 31, 1970.





4. Deferred credit

The Company sold, for cash, an undivided one-half interest in net assets of three of its operating divisions to Inland Steel Company on February 28, 1969. The Company and Inland Steel Company each transferred their one-half interest in the net assets of the three divisions to form A. O. Smith-Inland Inc. The gain on the sale of the one-half interest in the assets of the three divisions, less income taxes applicable thereto, together with the excess of the Company's equity in A. O. Smith-Inland Inc. over the net book value of the interest in the assets transferred to that company have been deferred and are being amortized to earnings over an 11 year period, the average remaining life of the buildings and equipment transferred. The portion applicable to one division has been credited against the Company's equity in the estimated loss on disposition of that division (see Note 6).

5. Stock Options

Under the Company's stock option plans, qualified or restricted options for 80,672 shares were outstanding at December 31, 1970, at per share prices ranging from \$25.04 to \$39.50 or a total of \$2,442,482. The options expire either five or ten years from date of grant and are exercisable at various dates. At December 31, 1970, options for 17,744 shares were exercisable. On June 19, 1970, options for 26,050 shares which had been granted in prior years with per share prices ranging from \$36.63 to \$47.38 were cancelled and new options were granted at a per share price of \$31.25. The new options may not be exercised until the cancelled options would have expired (April 10, 1973 - December 31, 1974).

In addition, options for 25,000 shares were granted in 1970 at per share prices ranging from \$31.25 to \$39.50 or a total of \$813,425. Of the options granted in 1970, 3,900 were granted under the 1970 plan which is subject to stockholder approval. Treasury stock was issued for options exercised in 1970 (16,423 shares at a price of \$27.51 per share or a total of \$451,797) and the excess of the cost thereof in the amount of \$234,135 over the proceeds of options exercised was charged to capital in excess of par value.

Under the 1970 plan, non-qualified options for 44,150 shares and 3,900 shares were granted to employees holding an equivalent number of shares under the 1964 plan and the 1970 plan, respectively. The per share prices under these grants were \$30.30 and \$33.58 respectively, representing 85% of the market value at date of grant. The per share prices compare to per share prices under the qualified plan of \$31.25 and \$39.50, respectively. The grantee has the option of exercising either the qualified or the non-qualified options and the option not so exercised is then cancelled.

At December 31, 1970, 18,217 shares of treasury stock and 161,174 shares of authorized but unissued common stock were reserved for the options outstanding and for options which may be granted in the future.

6. Extraordinary items

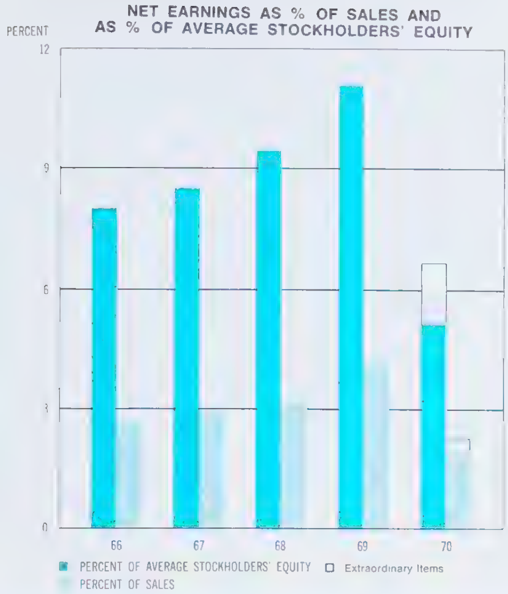
The extraordinary items include the gain (\$3,076,000) resulting from the sale of the oil well casing business, less costs associated with the discontinuance of a product line of the Railroad Products division and the Company's equity in the estimated loss to be incurred in connection with the disposition of the Specialty Products division of A. O. Smith-Inland Inc., a 50%-owned company.

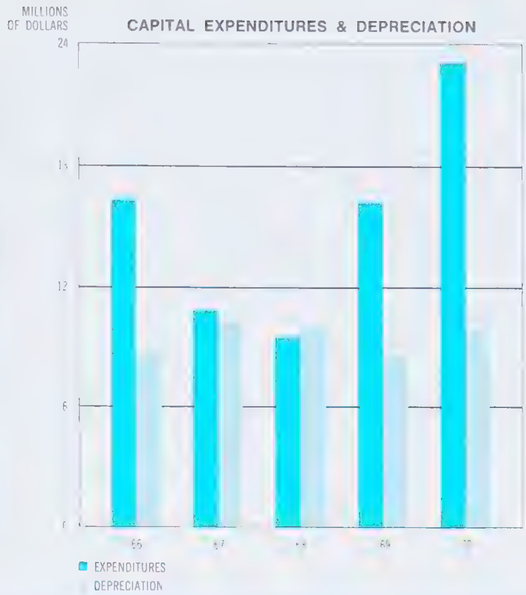
7. Depreciation

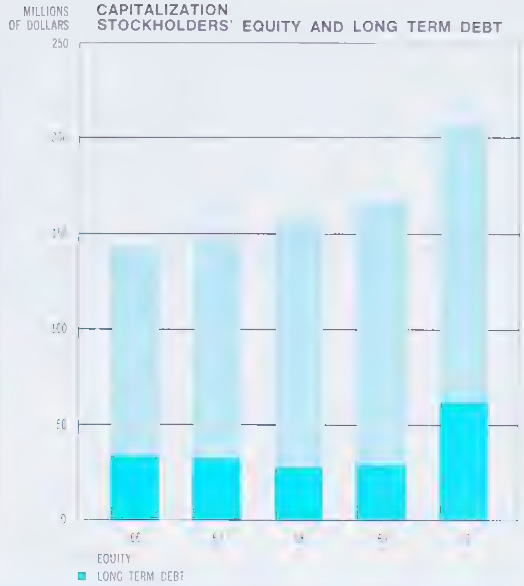
For financial statement purposes, depreciation on plant and equipment additions prior to January 1, 1954, and subsequent to December 31, 1966, is computed using the straight-line method; depreciation on additions between the above two dates is principally computed using accelerated methods. For income tax purposes, the Company uses accelerated methods and guideline depreciation. Deferred federal income taxes are provided for the excess of depreciation claimed for income tax purposes over depreciation provided for financial statement purposes.

8. Restatement of 1969 financial statements

The Company's investment in Armor Elevator Company, Inc. was shown as a separate item under other assets in the 1969 consolidated financial statements, as the allocation of the purchase price was dependent upon completion of audits and appraisals which were not completed until April 1970. The accompanying







consolidated balance sheet at December 31, 1969, gives effect to a restatement in which the accounts of Armor Elevator Company, Inc. have been included as follows:

Current assets		$16,328,003
Other assets		977,500
Plant and equipment		5,141,777
Excess cost of investment in subsidiary over net assets at date of acquisition		5,342,832
		27,790,112
Current liabilities	$10,693,699	
Long-term debt due after one year	1 452,634	
Deferred federal income taxes	52,725	
Minority interest	253,302	12,452,360
Investment in Armor Elevator Company, Inc.		$15,337,752

The consolidated statement of source and use of working capital for the year ended December 31, 1969, has been restated to reflect the net current assets ($5,634,304) acquired in the Armor Elevator Company, Inc. acquisition.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

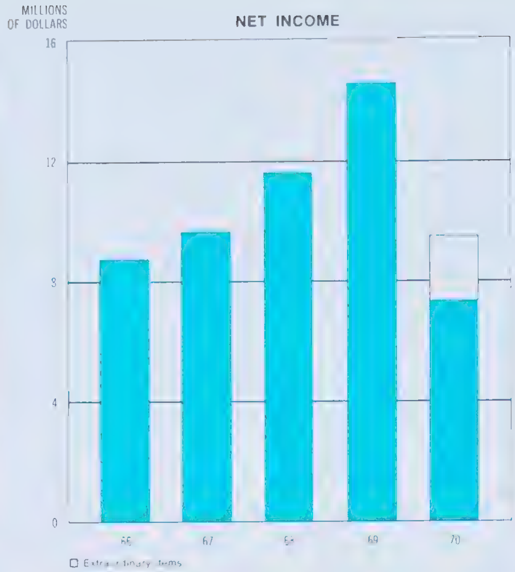
The Board of Directors and Stockholders
A. O. Smith Corporation

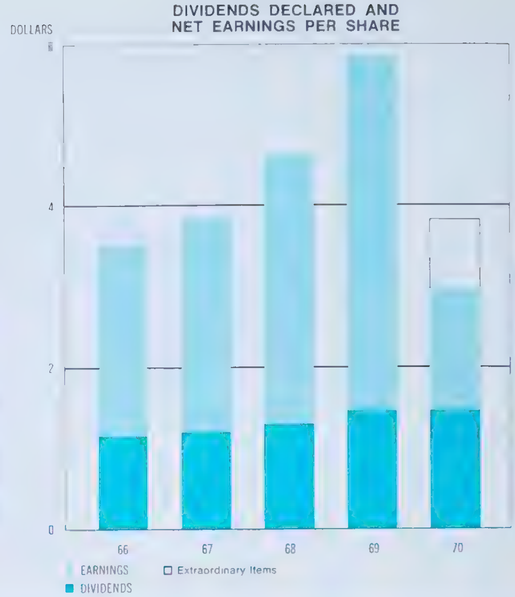
We have examined the accompanying consolidated balance sheet of A. O. Smith Corporation and subsidiaries at December 31, 1970, and the related consolidated statements of earnings, retained earnings and source and use of working capital for the year then ended. We have also examined the accompanying balance sheet of AgriStor Credit Corporation at December 31, 1970, and the related statement of earnings and retained earnings for the year then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly (1) the consolidated financial position of A. O. Smith Corporation and subsidiaries at December 31, 1970, the consolidated results of their operations and the source and use of their working capital for the year then ended and (2) the financial position of AgriStor Credit Corporation at December 31, 1970, and the results of its operations for the year then ended, each in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG & COMPANY
Milwaukee, Wisconsin

January 18, 1971





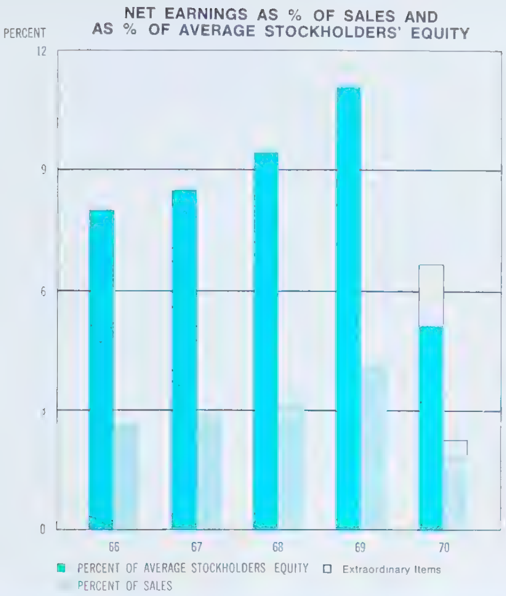
AGRISTOR CREDIT CORPORATION BALANCE SHEET
December 31, 1970 and 1969

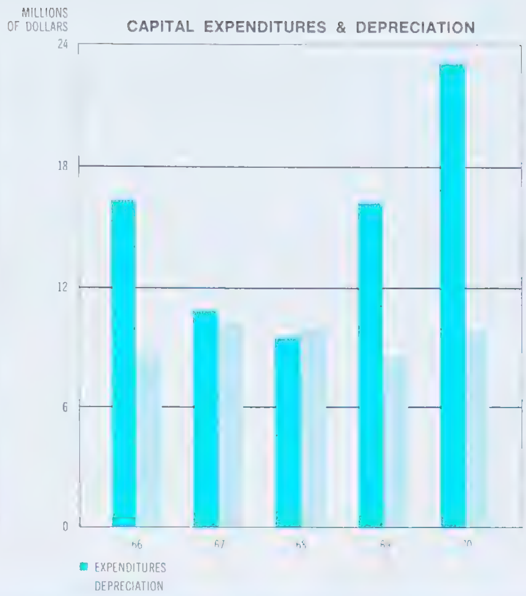
ASSETS	1970	1969
Cash	$ 1,488,157	$ 252,587
Installment contracts receivable (including amounts due within one year — 1970, $3,452,722; 1969, $2,314,517)	21,968,506	13,322,103
Less:		
Unearned time charges	6,584,681	3,962,313
Allowance for credit losses	209,970	118,825
	6,794,651	4,081,138
	15,173,855	9,240,965
Short-term notes receivable from dealers	3,542,989	3,003,389
Other assets	271,024	163,526
	$20,476,025	$12,660,467

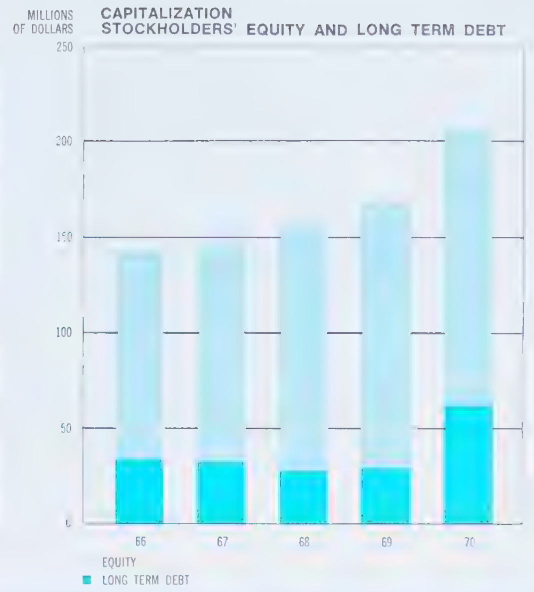
LIABILITIES AND STOCKHOLDERS' EQUITY

	1970	1969
Liabilities:		
Commercial paper	$14,421,000	$ 5,238,000
Short-term notes payable	327,690	3,845,850
Accounts payable and accrued liabilities	86,765	52,901
Income taxes	102,397	174,998
Reserve for credit losses withheld from dealers	497,787	294,601
Total liabilities	15,435,639	9,606,350
Stockholders' equity (Note 1):		
Common stock, $1,000 par value:		
Authorized 5,000 shares (Note 2)		
Issued and outstanding — 1970, 4,590 shares; 1969, 2,875 shares (wholly owned by consolidated subsidiaries of A. O. Smith Corporation)	4,590,000	2,875,000
Retained earnings	450,386	179,117
Total stockholders' equity	5,040,386	3,054,117
	$20,476,025	$12,660,467

See accompanying notes.







AGRISTOR CREDIT CORPORATION STATEMENT OF EARNINGS AND RETAINED EARNINGS

Years ended December 31, 1970 and 1969

	1970	1969
Income:		
Earned finance income	$1,949,386	$1,231,030
Expenses:		
General and administrative	407,801	212,223
Interest	980,316	674,624
	1,388,117	886,847
Earnings before income taxes	561,269	344,183
Provision for income taxes	290,000	192,000
Net earnings	271,269	152,183
Retained earnings beginning of year	179,117	26,934
Retained earnings end of year	$ 450,386	$ 179,117

See accompanying notes.

AGRISTOR CREDIT CORPORATION NOTES TO FINANCIAL STATEMENTS

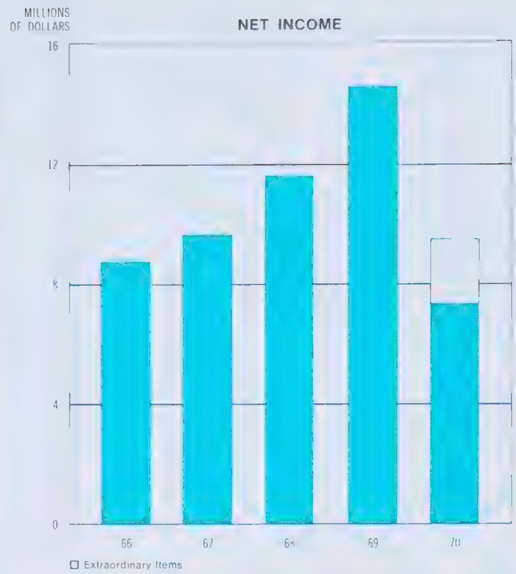
December 31, 1970

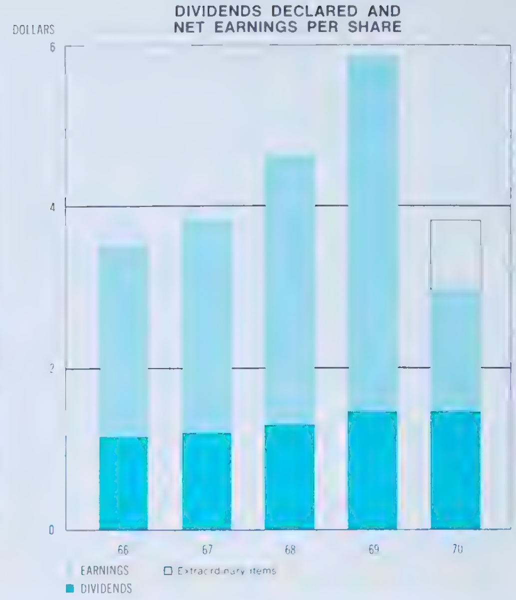
1. Limitation of bank indebtedness

The Company and A. O. Smith Corporation have entered into an agreement in connection with bank borrowings whereby aggregate borrowings of the Company shall not exceed 300% of its capital (net worth plus subordinated debt). The agreement also provides that the net worth of the Company shall not be less than $500,000. Under the terms of the agreement, A. O. Smith Corporation agrees that it or certain of its consolidated subsidiaries will make such additional investments (equity or subordinated debt) in the Company as may be necessary, subject to certain limitations, to prevent violation of the provisions outlined above.

2. Stock subscriptions

At December 31, 1970, two consolidated subsidiaries of A. O. Smith Corporation have subscribed, at par value, to the remaining authorized but unissued common stock of the Company.



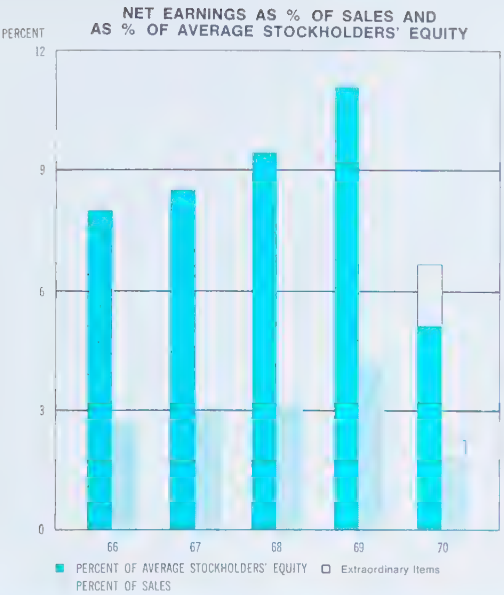


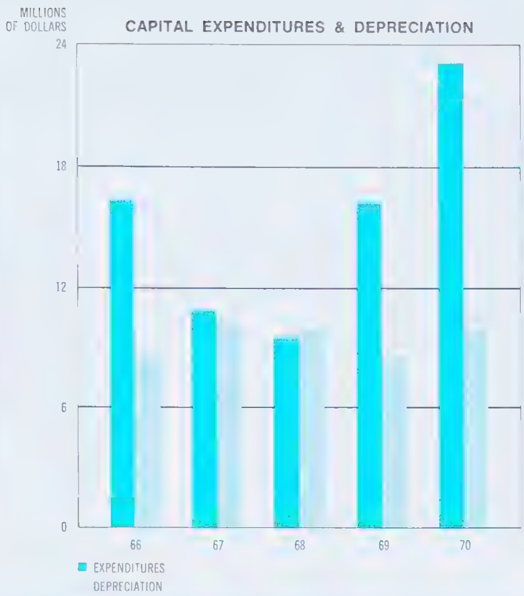
A. O. SMITH CORPORATION TEN-YEAR FINANCIAL SUMMARY ($000 Omitted Except for Per Share Values)

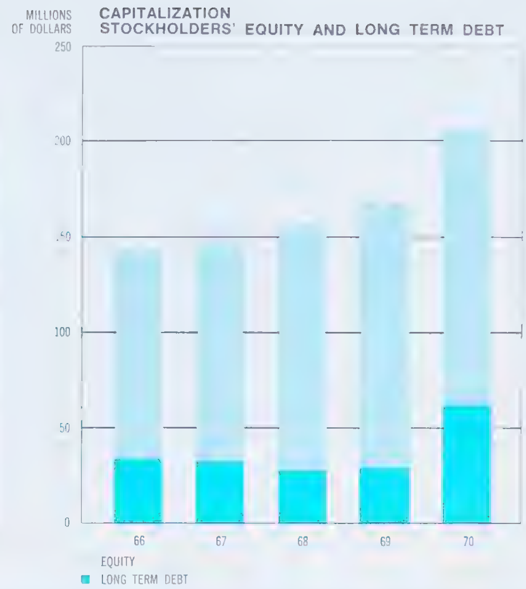
	1970	1969	1968	1967
NET SALES	**413,098**	354,518	372,798	329,976
EARNINGS BEFORE EXTRAORDINARY ITEMS	**7,287**	—	—	—
Per Share (2)	**2.95**	—	—	—
NET EARNINGS (After extraordinary items)	**9,433**	14,560	11,643	9,627
Per Share (2)	**3.82**	5.84	4.68	3.87
As % of Sales	**2.3%**	4.1%	3.1%	2.9%
As % of Average Stockholders' Equity	**6.6%**	10.9%	9.4%	8.4%
CASH FLOW (Net Earnings and Depreciation Only)	**19,284**	23,088	21,518	19,799
Per Share (2)	**7.81**	9.26	8.65	7.96
CASH DIVIDENDS	**3,457**	3,494	3,198	2,808
Per Share (As Declared)	**1.40**	1.40	1.30	1.20
Per Share (2)	**1.40**	1.40	1.29	1.13
As % of Net Earnings	**36.6%**	24.0%	27.5%	29.2%
STOCK DIVIDENDS	**—**	—	5%	5%
WORKING CAPITAL				
Cash and Marketable Securities	**12,814**	10,691	28,706	8,299
Receivables	**55,724**	50,017	42,766	41,598
Inventories and Other Assets	**89,498**	79,229	63,172	67,379
Total Current Assets	**158,036**	139,937	134,644	117,276
Current Liabilities	**62,636**	65,513	49,905	37,551
Net Working Capital	**95,400**	74,424	84,739	79,725
Current Ratio	**2.5**	2.1	2.7	3.1
CAPITALIZATION				
Stockholders' Equity	**142,936**	138,003	127,956	119,440
Book Value Per Share (3)	**58.25**	55.73	51.38	48.07
Long-Term Debt:				
Notes Payable	**58,444**	24,906	22,400	24,000
Lease Purchase Obligations	**3,780**	3,960	6,081	6,348
Total Long-Term Debt	**62,224**	28,866	28,481	30,348
Total Capital	**205,160**	166,869	156,437	149,788
Long-Term Debt As % of Total Capital	**30.3%**	17.3%	18.2%	20.3%
PLANT AND EQUIPMENT				
Gross	**185,608**	170,757	160,457	157,040
Accumulated Depreciation	**98,710**	96,310	96,442	91,385
Net	**86,898**	74,447	64,015	65,655
CAPITAL EXPENDITURES	**23,267**	16,275	9,258	10,979
ANNUAL DEPRECIATION	**9,851**	8,528	9,875	10,172
AVERAGE NUMBER OF EMPLOYEES	**16,008**	12,844	13,754	13,728

(1) In 1963 the Company changed its fiscal year from July 31 to December 31. Data shown are for the short period August 1, 1963 to December 31, 1963.

(2) Net Earnings, Cash Flow and Cash Dividends Per Share are based on average shares outstanding



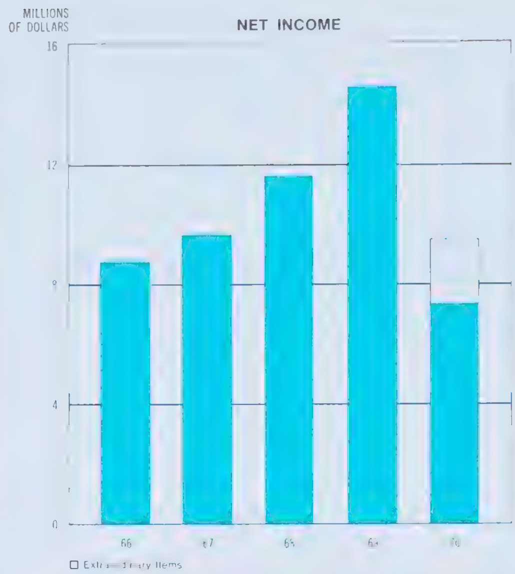


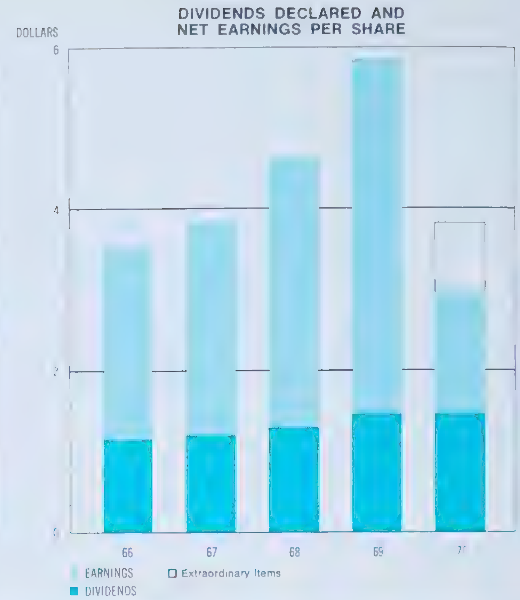


1966	1965	1964	1963(1)	1963	1962	1961
318,433	358,441	299,852	112,585	281,819	249,053	221,952
—	—	—	—	—	—	—
—	—	—	—	—	—	—
8,738	7,918	1,512	1,819	5,513	5,922	(1,370)
3.51	3.18	.61	.73	2.22	2.38	(.55)
2.7%	2.2%	.5%	1.6%	2.0%	2.4%	—
8.0%	7.6%	1.5%	1.8%	5.6%	6.0%	—
17,580	17,493	10,387	5,361	13,664	14,501	6,799
7.07	7.03	4.18	2.16	5.49	5.83	2.73
2,567	2,148	2,147	536	2,145	2,145	3,415
1.15	1.00	1.00	.25	1.00	1.00	1.60
1.03	.86	.86	.22	.86	.86	1.37
29.4%	27.1%	142.0%	29.5%	38.9%	36.2%	—
5%	—	—	—	—	—	2%
9,558	14,155	7,434	12,313	10,198	9,175	14,891
39,415	35,520	38,947	36,322	36,262	32,555	22,155
67,866	59,178	62,811	49,919	54,168	44,657	39,659
116,839	108,853	109,192	98,554	100,628	86,387	76,705
38,509	31,507	42,874	22,508	23,726	19,536	15,323
78,330	77,346	66,318	76,046	76,902	66,851	61,382
3.0	3.5	2.5	4.4	4.2	4.4	5.0
112,621	106,445	100,675	102,498	101,216	101,740	96,898
45.33	42.85	40.52	41.30	40.79	41.00	39.05
27,000	31,000	32,440	32,570	32,570	25,000	26,000
6,601	—	—	—	—	—	—
33,601	31,000	32,440	32,570	32,570	25,000	26,000
146,222	137,445	133,115	135,068	133,786	126,740	122,898
23.0%	22.6%	24.4%	24.1%	24.3%	19.7%	21.2%
151,165	128,610	137,012	127,975	126,958	116,200	114,148
85,919	77,933	78,138	74,083	72,258	64,237	60,444
65,246	50,677	58,874	53,892	54,700	51,963	53,704
16,318	6,596	16,657	3,491	8,581	8,422	8,714
8,842	9,575	8,875	3,542	8,151	8,579	8,169
13,356	14,752	14,146	13,091	12,609	11,228	11,668

in each year adjusted for subsequent stock dividends.

(3) Book Value Per Share is based on year-end stockholders' equity and shares outstanding at year-end adjusted for subsequent stock dividends.





STATEMENT OF ACCOUNTING PRACTICES

Consolidation

1. The accounts of domestic and foreign subsidiaries in which the corporation has more than 50% ownership are fully consolidated, exclusive of the finance subsidiary.

2. Equity in earnings of 50%-owned affiliates and the finance subsidiary is reflected in the profits and investment of the corporation.

3. Only dividends received are reported as income for those affiliates in which ownership is less than 50%.

Depreciation — Straight line depreciation is utilized except for assets capitalized from 1954 through 1966. The latter assets are depreciated on the sum of the years digits method.

Retirement Plans — Provisions are based on actuarially determined current cost plus interest on unfunded liabilities employing the frozen initial liability actuarial method. Provisions are also made to amortize, over 40 years, the past service cost of plans under which the actuarially computed vested benefits exceed the assets of related trusts.

Model Changeover — Expenses and identifiable tool costs associated with changing certain models are amortized over the anticipated production units of the model involved or the time period of the model life, whichever occurs first.

Vacations — Accruals are made to reflect the liability of the corporation to its employees at year end. Generally, liability exists as of December 31 for the subsequent 12 month period.

Research and Development — These expenses are charged to income as incurred.

Inventories — Productive inventories are carried at standard cost which approximates acquisition cost on a first-in/first-out basis. Supplies are reflected at actual or recent average cost.

Product Warranty Liability — Current operations are charged for future claims arising under the terms of various guarantees made in connection with the sale of products. These reserves are classified as current liabilities and applicable income taxes are reflected in prepaid expenses.

Lease Purchase Agreements — Installment purchases under lease agreements have been established as long-term liabilities with the associated property capitalized in the accounts in conformity with APB Opinion No. 5.

Acquisitions — The purchase prices of acquired businesses are allocated to the assets acquired on the basis of fair values. Excess of cost over the fair values, less liabilities, is included in the balance sheet as an intangible asset under the caption "Excess Cost of Investment in Subsidiaries Over Net Assets at Date of Acquisition."

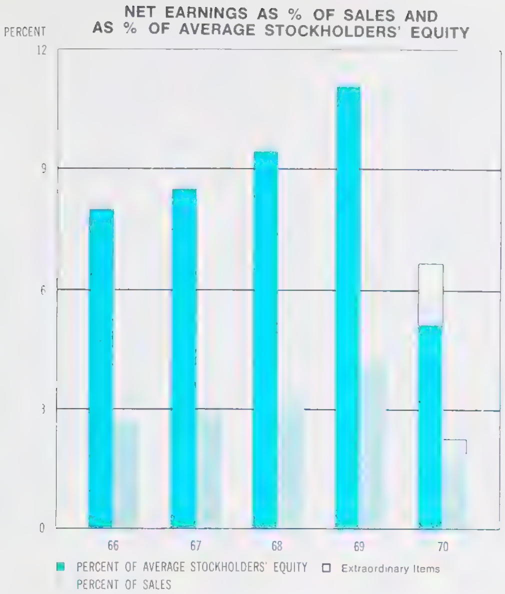
Amortization of Intangibles — The cost of intangible assets acquired is amortized over the estimated life of each specific asset. Excess cost of investment in subsidiaries over net assets at date of acquisition is amortized over a 40-year period.

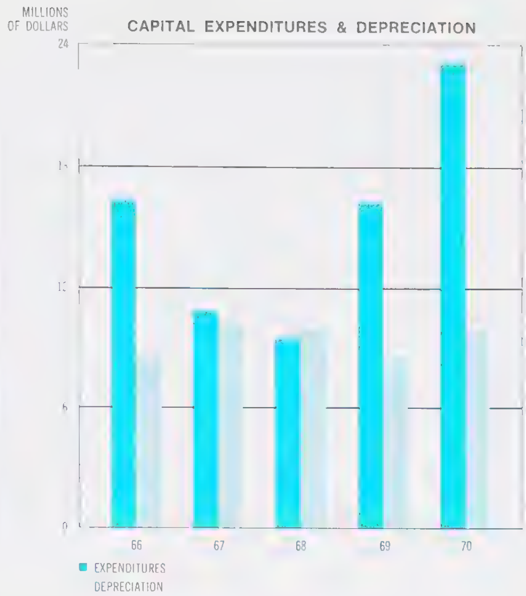
Conversion of Foreign Currency — The accounts of foreign branches and subsidiaries included in the consolidated financial statements are converted to U. S. dollars on the following basis:

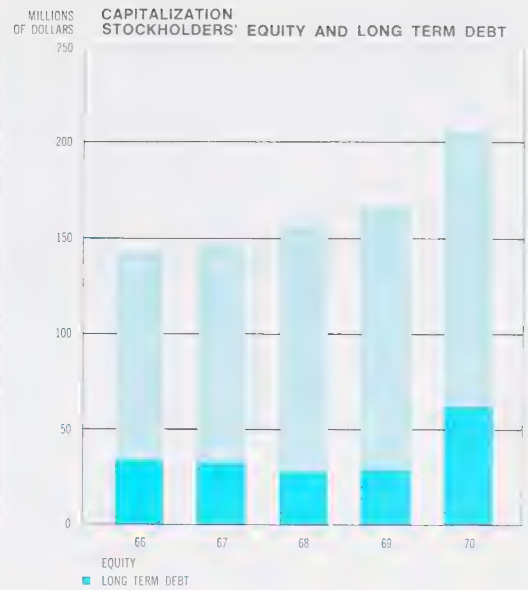
1. Net current assets and certain long-term liabilities are converted at the exchange rates at the end of the fiscal year. Fixed and other non-current assets, long-term liabilities and capital accounts are converted at the exchange rates prevailing when they were originally incurred or acquired.

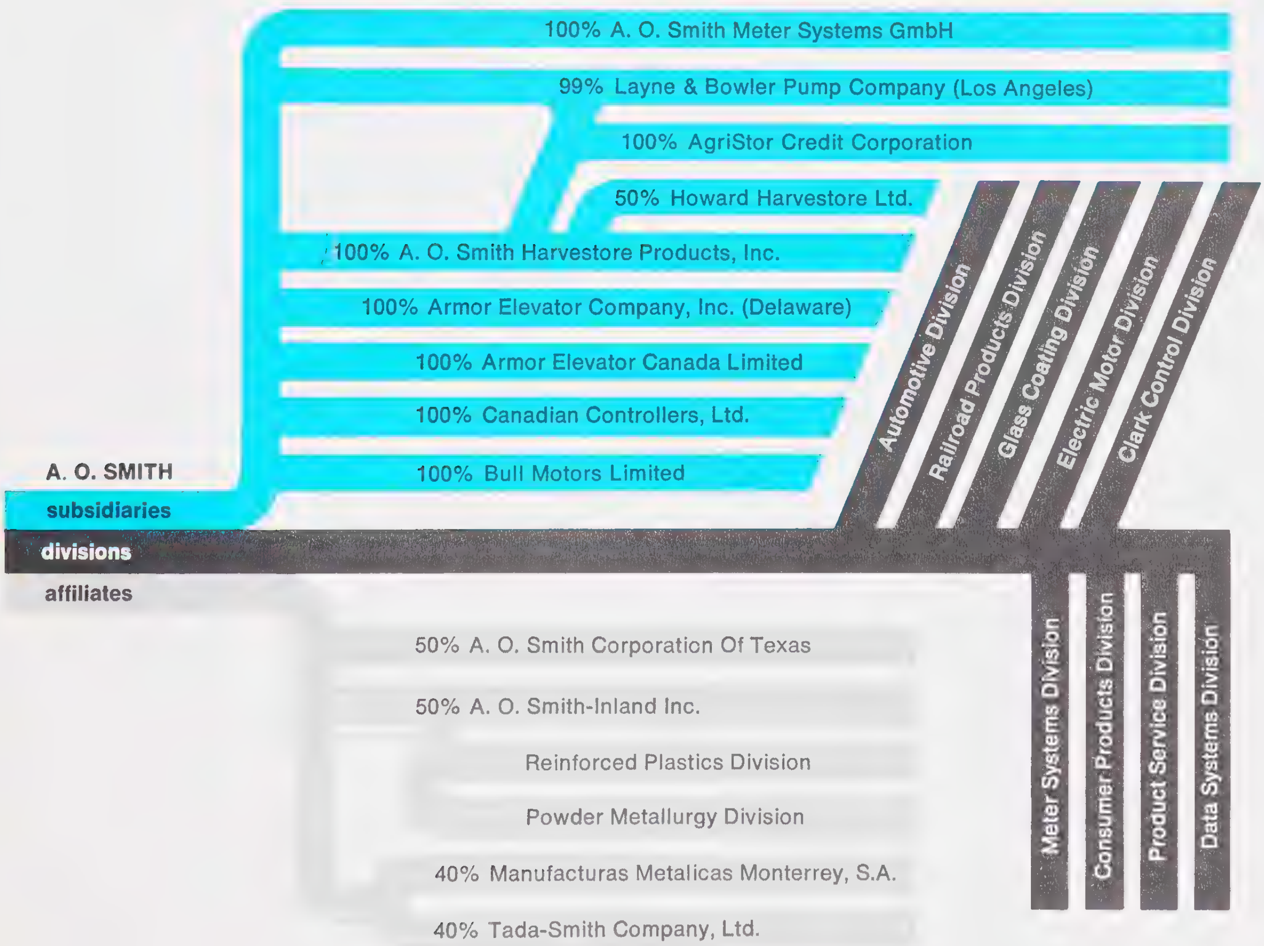
2. Income statements are converted at the average exchange rate for the fiscal year, except for provisions for depreciation, which are converted at the exchange rates applicable to the fixed assets being depreciated.

3. Minor fluctuations in exchange rates from year to year are not reflected.

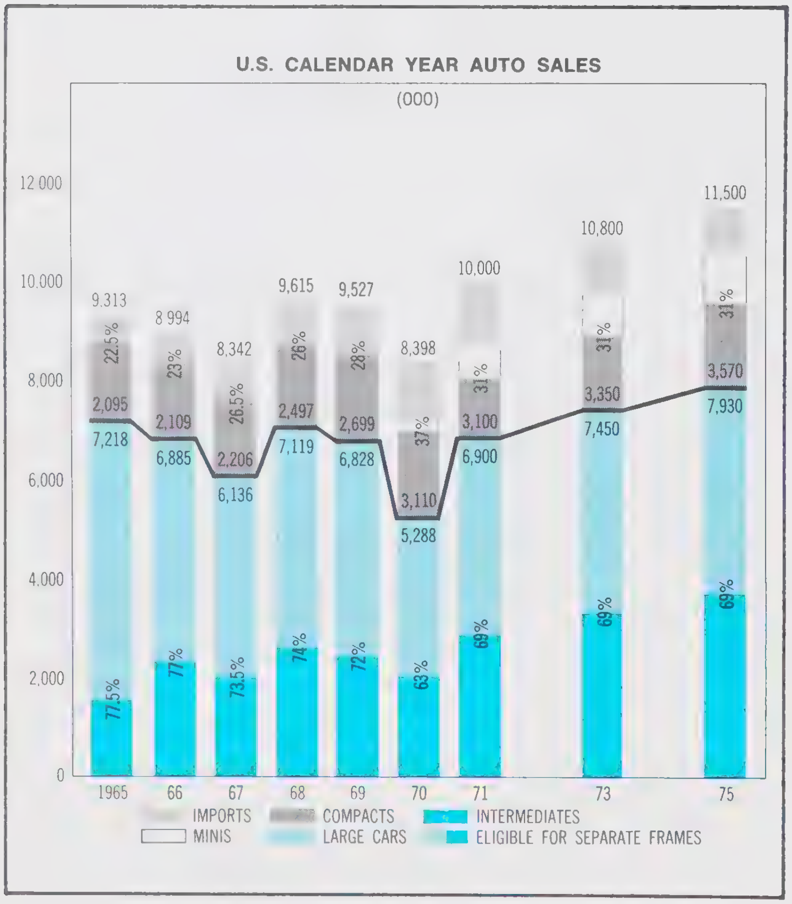

NET EARNINGS AS % OF SALES AND AS % OF AVERAGE STOCKHOLDERS' EQUITY
PERCENT
12
9
6
3
0
66
67
68
69
70
PERCENT OF AVERAGE STOCKHOLDERS' EQUITY
Extraordinary Items
PERCENT OF SALES


MILLIONS OF DOLLARS
CAPITAL EXPENDITURES & DEPRECIATION
24
0
66
67
68
69
70
EXPENDITURES
DEPRECIATION


MILLIONS OF DOLLARS
CAPITALIZATION
STOCKHOLDERS' EQUITY AND LONG TERM DEBT
250
200
150
100
50
0
66
67
68
69
70
EQUITY
LONG TERM DEBT


A. O. SMITH
subsidiaries
divisions
affiliates
100% A. O. Smith Meter Systems GmbH
99% Layne & Bowler Pump Company (Los Angeles)
100% AgriStor Credit Corporation
50% Howard Harvestore Ltd.
100% A. O. Smith Harvestore Products, Inc.
100% Armor Elevator Company, Inc. (Delaware)
100% Armor Elevator Canada Limited
100% Canadian Controllers, Ltd.
100% Bull Motors Limited
Automotive Division
Railroad Products Division
Glass Coating Division
Electric Motor Division
Clark Control Division
Meter Systems Division
Consumer Products Division
Product Service Division
Data Systems Division
50% A. O. Smith Corporation Of Texas
50% A. O. Smith-Inland Inc.
Reinforced Plastics Division
Powder Metallurgy Division
40% Manufacturas Metalicas Monterrey, S.A.
40% Tada-Smith Company, Ltd.

A. O. SMITH AND THE MINI CAR



Shareholders and members of the investment community alike have questioned A. O. Smith on the effect the mini cars might have on the company's frame business. In 1970, several new small automobiles were introduced by U. S. automobile manufacturers.

The mini cars do not use separate frame construction and as a result, do not constitute a market for A. O. Smith frames.

The chart on this page shows how A. O. Smith looks at the automobile market through 1975. These figures and projections were compiled by A. O. Smith planners, combining the predictions and comments of automotive industry sources with the company's own market research.

With some exceptions, vehicles with a 100 inch wheel base or larger are eligible for separate frame construction.

As indicated on the chart, A. O. Smith planners see the market for automobile frames actually increasing. In 1975, about 7,900,000 automobiles will be eligible for separate frame construction, compared to 7,218,000 in 1965. While the mini cars will certainly capture a substantial share of the market, the market itself is expanding.

A majority of the cars in the large and intermediate class already use separate frame construction; but the remainder are eligible for this type of construction and, therefore, represent an additional opportunity for growth.

About one-third of the frames produced each year by A. O. Smith are for trucks, and this market will not be affected by the mini cars. The truck market has enjoyed steady growth which should continue in the years ahead, although perhaps not as rapidly as in the past few years.

As the largest manufacturer of auto and truck frames in the world, A. O. Smith has a large and growing stake in the automotive industry. The company intends to maintain its strong position in order to participate in the growth which lies ahead.

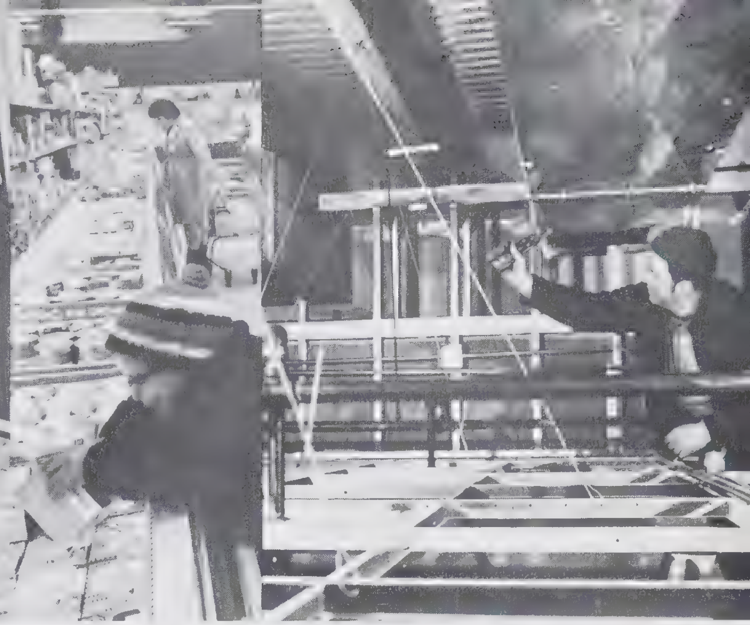
GROWTH MARKETS

A. O. Smith customers range from building contractors and plumbers to giant oil companies and automobile manufacturers. Its products compete in such diverse markets as water heating, petroleum, agriculture and electrical equipment. The company is an acknowledged leader in the manufacture and sale of automobile and truck frames, water heaters, animal feeding systems and petroleum meters. The markets the company serves range in size from less than $5 million annually to several hundreds of millions of dollars.

On the next five pages some of the company's growth markets are discussed in detail. It is not possible in this annual report to discuss all of the company's markets, so a selection has been made from those which hold outstanding growth potential or in which A. O. Smith is growing at a faster rate than the market.

The purpose of this discussion is to indicate the diversity of the products and markets of the company. The following pages should also indicate that the nature of the company is changing — from a process oriented company to one which is more product and market oriented. No longer does A. O. Smith depend largely upon process improvements to compete in the market place. It also competes on the basis of quality, service, delivery, uniqueness of design and on its ability to produce new products to fill market demands.

The changing nature of the company was evident in 1970. While many segments of the economy performed poorly, several A. O. Smith divisions — those that serve growth markets — set sales records.



HERMETIC MOTORS

A. O. Smith has captured a strong position in one of the fastest growing markets in industry today — hermetic motors for air conditioning and refrigeration.

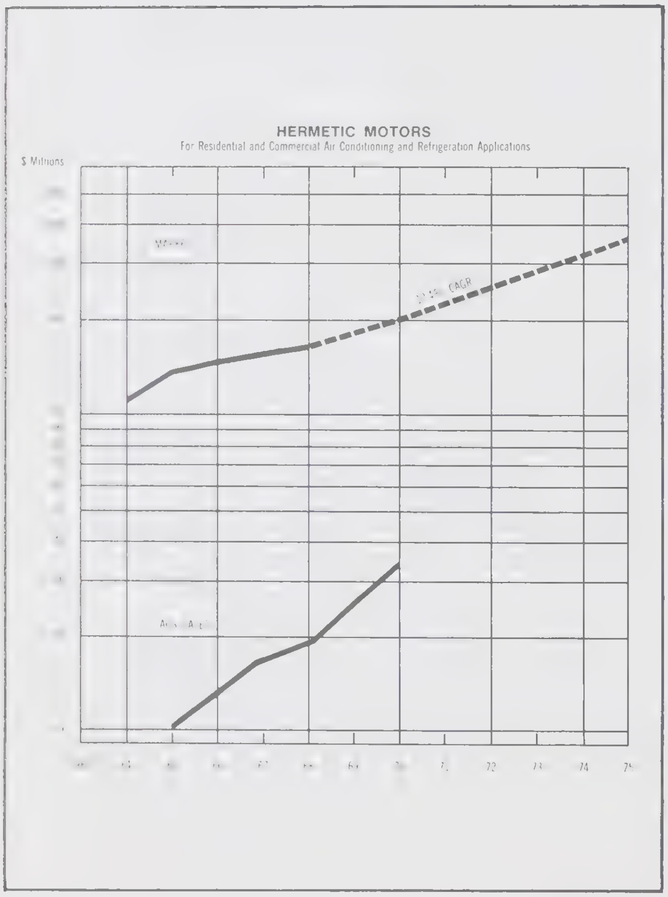
Some 60 to 65% of the electric motors produced by A. O. Smith are hermetic. Most of these are sold to compressor manufacturers and to original equipment manufacturers of air conditioning and refrigeration equipment.

The central air conditioning market, serving primarily large industrial and commercial building complexes, has a compound annual growth rate of 13%. The unitary air conditioning market, which is central air conditioning for homes and small commercial buildings, has a compound annual growth rate of 16.9% and the market for small room units registered a 13.8% compound annual growth rate.

Current estimates indicate that the market for unitary air conditioning will increase at a rate of 14% through 1975 and window units at an 8 to 10% rate.

The installation of air conditioning systems in homes and offices, which in the past had been considered a luxury, is now becoming a necessity. So the air conditioning market has not been adversely affected by the decline in the housing market. The older home, apartment and commercial building furnish perhaps the most important base for increasing air conditioning sales, and therefore the sale of hermetic motors. And strong advances in apartment construction and the continued high volume of mobile home completions provide another expanding market for the air conditioning industry.

Nearly 40% of all new homes are built with air conditioners each year, and the rate is increasing. In 1969, 42% of all wired homes had some form of air conditioning but only 10% had unitary systems. In 1969, unitary shipments amounted to 1.6 million units and it is forecasted that the level will reach 4.5 million units by 1975, an increase of 180%.



CAGR — Compound Annual Growth Rate
Market Source: Census MA-36H, Current Industrial Reports

AOS has about 15% of the hermetic motor market for air conditioners.

Hermetic motors account for about 60-65% of total AOS motor sales.

The fractional motor market (not shown on chart), in which AOS participates, is estimated at $250 million in 1970.

Total sales of AOS U. S.-made electric motors in 1970 were about $54 million, up from $45 million in 1969, and $21 million in 1965.

Bull Motors, a U. K. subsidiary, sold approximately $5 million in electric motors in 1970.

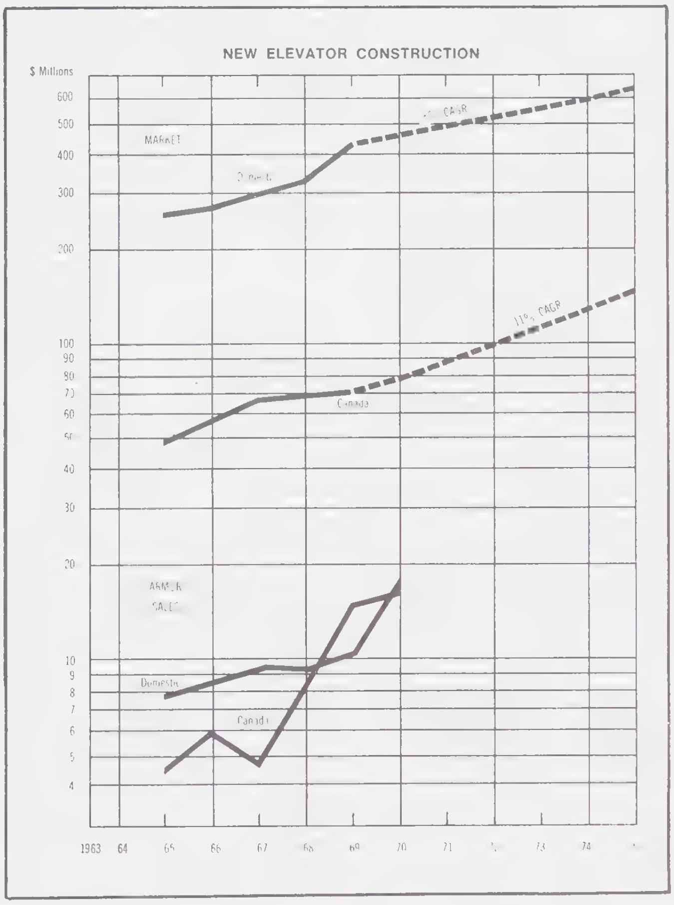
ELEVATORS

A. O. Smith's subsidiary, Armor Elevator Company, Inc., is one of only four elevator companies in the U. S. which manufactures all three types of elevators — geared, gearless and hydraulic, and is the second largest elevator manufacturer in Canada. Armor currently has about 5% of the U. S. market and more than 20% of the Canadian market.

Several economic factors are prominent today which indicate a continuing demand for high rise construction— both residential and commercial. These factors include the current critical housing shortage in the U. S. and the continuing migration of the population to urban areas. In addition, the number of young families — in the 20-30 age group — continues to increase. And the high cost and scarcity of land, particularly in urban areas, encourages high rise construction.

New elevator contracts in the U. S. during 1970 reached about $460 million and are expected to reach $600 million by 1980, according to the National Elevator Industry. Armor has an opportunity to take particular advantage of this growth because of its manufacturing capabilities and because the company is moving rapidly to expand its market coverage by establishing new sales and service facilities in major U. S. and Canadian cities.

The new elevator construction market is growing in the U. S. at a compound annual rate of 8% and in Canada at 11%. Armor's growth currently exceeds the industry rate in both countries.



CAGR — Compound Annual Growth Rate

Market Source: Domestic — National Elevator Industry
Canada — Canadian Electrical Mfgrs. Assn.

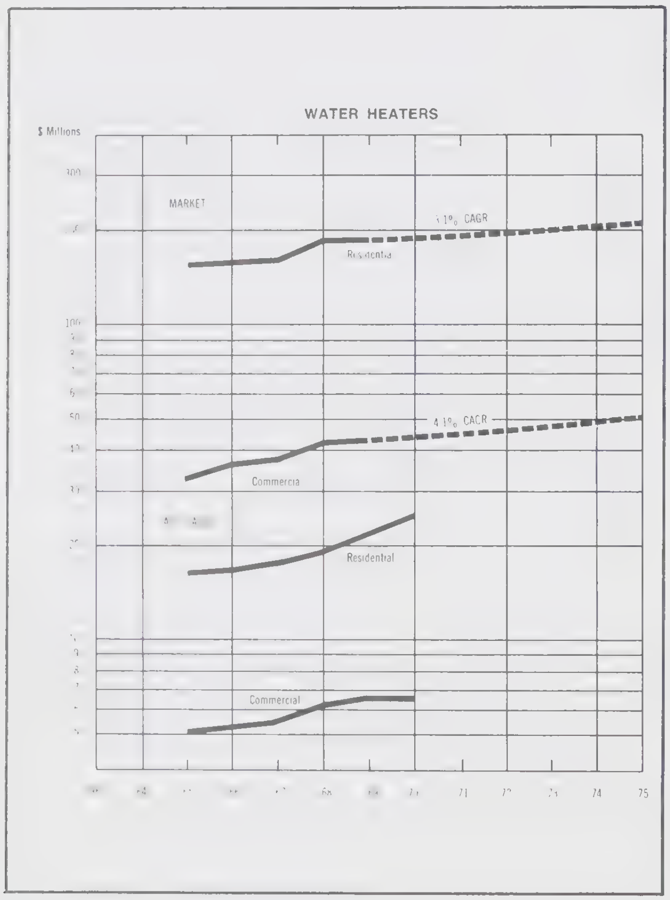
Armor has about 5% of the U. S. elevator market.

Armor is the second largest elevator manufacturer in Canada with about 20% of the market.

Armor is one of only four U. S. companies capable of manufacturing the three main types of elevators — hydraulic, geared and gearless.

Total sales of Armor, both U. S. and Canada, including new construction and service, were about $43 million in 1970, compared to about $32 million in 1969.

WATER HEATING



CAGR — Compound Annual Growth Rate
Market Source: Gas Appliance Manufacturers Ass'n.

AOS is the largest manufacturer of commercial water heaters, with about 20% of the market.

AOS is one of the three largest manufacturers of residential water heaters, with about 11% of the market.

12.7% sales increase in residential water heaters in 1970 over 1969 due mainly to large replacement business.

The growth rates for residential and commercial water heating equipment are not particularly outstanding. Yet A. O. Smith has consistently out-performed these markets. The company is the largest U. S. manufacturer of commercial water heaters, with about 20% of the market and is one of the three largest manufacturers of residential water heaters, with a market share of about 11%.

The compound annual growth rate for the commercial water heater market is 4.1%, with total annual sales in 1970 of about $45 million. Future growth will come from a number of areas, but one promising development is the increased number of swimming pools using water heaters. Of the estimated 91,000 swimming pools installed in 1969, nearly half had water heaters as original equipment. The market for swimming pool heaters should see substantial growth during the next few years because of the expected increase in residential housing construction, better money supply and credit conditions and the trend for Americans to expend disposable income on leisure activities.

While the residential market for water heaters is growing at a modest annual rate of 3.1%, A. O. Smith increased its sales some 12.7% in 1970 over 1969. Much of A. O. Smith's growth is due to concentration on the replacement portion of the market.

Since a significant increase in housing starts is generally forecast in the 1970's, even further growth can be expected from this $200 million a year market.

FOOD WASTE DISPOSERS

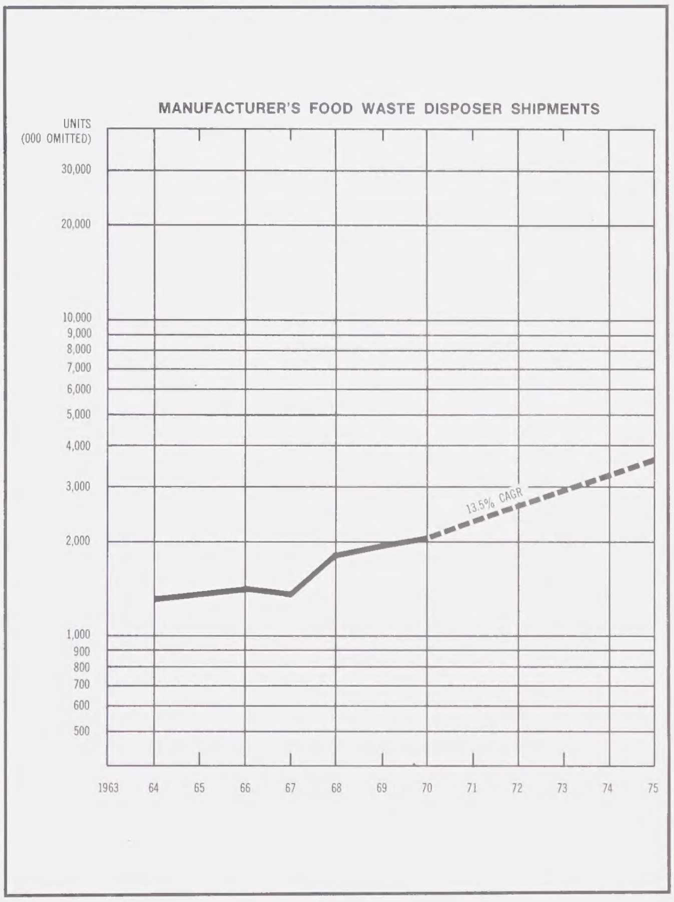
A. O. Smith entered the home appliance market in 1970 with a complete line of food waste disposers. There are seven different models in the line, all with unique design characteristics which provide a competitive edge in this fast growing market.

The American Home Appliance Manufacturers Association has estimated that the disposer market will grow from less than 2,000,000 units sold annually today, to nearly 4,500,000 units in 1980. Retail gross sales are expected to increase from $120 million to $280 million in that same period.

The greatest source for this projected growth comes from the sale of disposers into homes and apartments where they have never before been installed. But in addition, the replacement market will also be substantial. In 1970, an estimated 1,260,000 disposers were initial installations, while another 775,000 replacement units were sold. By 1980, approximately 47% of all disposers sold annually will be in the replacement portion of the market.

Currently, slightly more than 20% of U. S. homes have food waste disposers and by 1980 this figure is expected to reach 50%. Historically, every home appliance that has broken through the 20% saturation level, which the disposer did in 1970, has continued on up.

A. O. Smith can exploit the new installation and replacement segments of the market. The company has a network of more than 600 plumbing wholesalers who already know of the quality and reliability of A. O. Smith water heating products. This is the channel through which the company will distribute its disposers. Nearly 50% of all disposers are sold today through plumbing contractors, whose principle source of supply is the plumbing wholesaler.

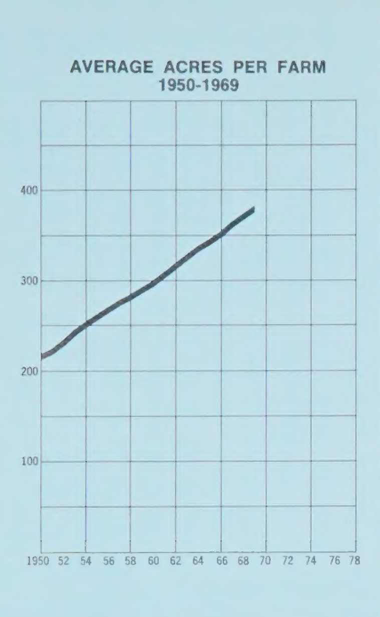


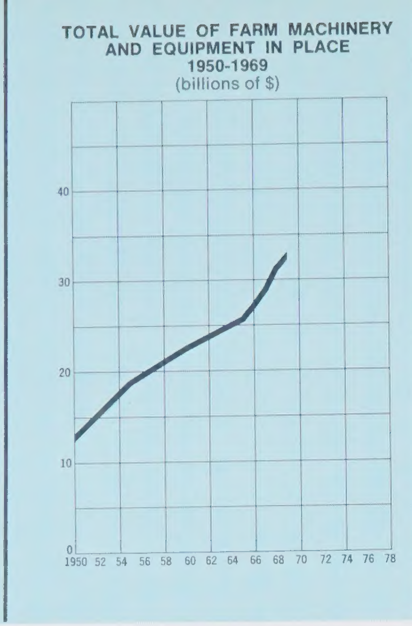
CAGR — Compound Annual Growth Rate
Market Source: American Home Appliance Manufacturers Association

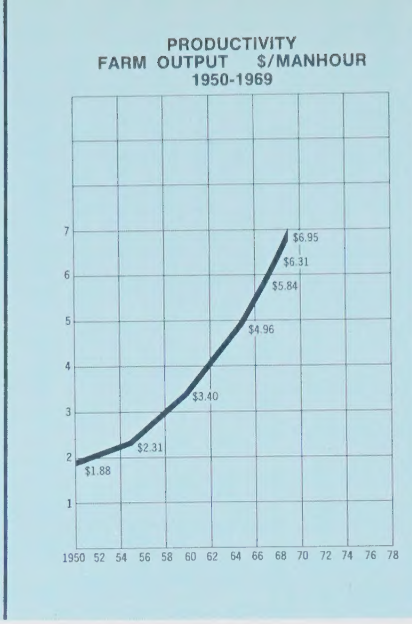
By 1980, a total of more than 36,000,000 disposers will be in use in the U.S.

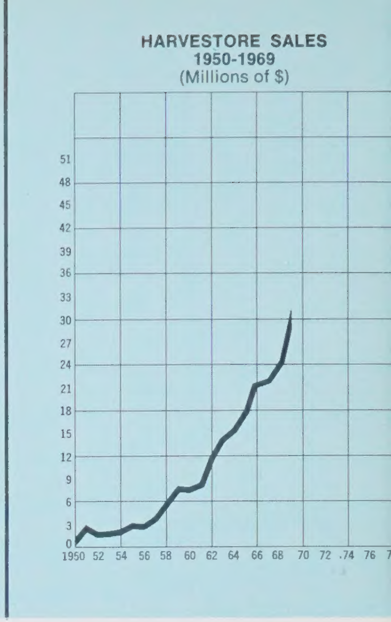
49.3% of all disposers are sold by plumbing contractors.

Disposers last an average of 10 years.



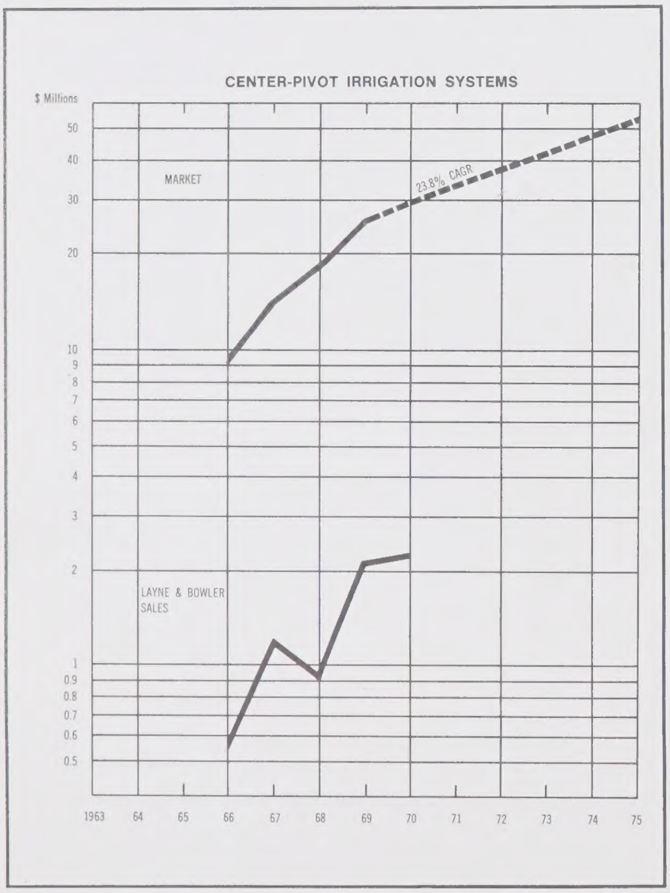






Source: Charts (1), (2) U. S. Dept. of Commerce "1970 Statistical Abstract of the U. S." Chart (3) derived from charts 931 & 942 therein.

These four charts graphically portray the dramatic 20-year trend of agricultural mechanization and, through the Harvestore, A. O. Smith's role in this agribusiness revolution. Bigger farms normally mean larger per farm investments. And these larger investments facilitate increases in productivity. The Harvestore, and its related line of feed lot and feed room automation equipment, plays a major role in increasing farm productivity.



CAGR — Compound Annual Growth Rate
Market Source: A. O. Smith Market Study

Acres under center pivot type irrigation will increase from about 660,000 in 1967, to nearly 4,000,000 in 1980 — a growth of some 490%. Center pivot irrigation will grow from 9% today to 25% of the total acreage under sprinkler irrigation.

AGRICULTURE

Within the broad agricultural market, A. O. Smith serves two highly specialized areas — animal feeding and center pivot irrigation, through its subsidiaries, A. O. Smith Harvestore Products, Inc. and Layne & Bowler Pump Company. While many other areas of the agricultural market have shown little or no growth in recent years, A. O. Smith markets have been growing rapidly. This growth is expected to continue.

The Harvestore was developed 22 years ago in response to a need by farmers to more efficiently store crops for feeding beef cattle, dairy cows and hogs. The success of the system lies in its ability to automate the farmyard at a time when the survival of many farms depends upon the ability of the farmer to increase his productivity.

It is difficult to make a statistical analysis of the market for Harvestores, but the trend toward fewer but larger farms, an increasing demand for beef on the dinner table and the overwhelming necessity for farmers to increase productivity, all indicate continued good growth for this product. And since the company is by far the largest manufacturer of automated feeding systems, its growth will continue to be sizable. This is a case where A. O. Smith has created a unique growth market of its own.

The growth of center pivot irrigation is forecast at 490% between 1967 and 1980. This is an increase from 660,000 acres under center pivot type irrigation in 1967, to nearly 4,000,000 in 1980. Dollar sales of center pivot systems are forecast to move from $15 million to nearly $50 million in that same period.

Much of this growth is expected in the southeast, the midwest and the east coast areas which have not yet been fully exposed to an aggressive marketing effort.

Layne & Bowler's Raincat center pivot system can irrigate 150 acres at the touch of a button and thereby reduce labor and water costs while at the same time providing a better and more flexible water distribution pattern.

Agronomists have estimated that irrigation has the potential to add to a farmer's income by as much as $50 to $125 per acre of corn, $50 to $300 per acre of pasture and $25 to $75 per acre of hay — powerful arguments for the increased use of irrigation.

DIVISIONS

Automotive Division
Milwaukee, Wisconsin; Granite City, Illinois

Passenger automobile frames and structural parts; truck, bus and trailer frames; wheel suspension control arms —

Railroad Products Division
Milwaukee, Wisconsin

Hydra-Buff™ and Cushion Ride™ freight car hydraulic cushioning devices; steel running boards and brake steps for freight cars; Boxweld brake beams; other brake equipment; structural sign frames —

Electric Motor Division
Tipp City, Ohio; Mount Sterling, Kentucky

Custom engineered motors for manufacturers of air conditioning, heating and commercial refrigeration equipment, domestic dishwashers, home water pumping systems and other specialized products —

Clark Control Division
Cleveland, Ohio; Lancaster, South Carolina

Clark packaged drives and drive systems for industrial processes; electrical controls for industrial and commercial applications —

Meter Systems Division
Erie, Pennsylvania

Positive displacement and turbine meters with accessories for liquid flow; liquid control valves; static charge measurement and reduction devices; remote electronic and electro-mechanical readout instruments; gasoline pumps; self-service dispensing systems; electronic key and card control fluid handling and data acquisition systems for petroleum loading and fleet fueling —

Consumer Products Division
Kankakee, Illinois; Stratford, Canada

Permaglas® and Glascote® residential and commercial water heaters; Burkay® commercial and industrial water heaters; swimming pool heaters; glass-lined storage tanks; hydronic heating equipment; food waste disposers —

Glass Coating Division
Milwaukee, Wisconsin

Glass coating —

Data Systems Division
Milwaukee, Wisconsin

Data processing services —

Product Service Division
Chicago, Illinois; Atlanta, Georgia; Union, New Jersey

SUBSIDIARIES*

Layne & Bowler Pump Company
Los Angeles, California

Raincat® automated center pivot irrigation systems; vertical turbine pumps —

Armor Elevator Company, Inc.
New York, New York; Louisville, Kentucky; Los Angeles, California

Armor Elevator Canada Limited
Toronto and Vancouver, Canada

Complete geared, gearless and hydraulic elevator systems; elevator controls and signal systems; elevator door operators and accessories —

A. O. Smith Harvestore Products, Inc.
Arlington Heights, Kankakee and Eureka, Illinois; Elkhorn, Wisconsin

Harvestore® glass-fused-to-steel farm storage systems; Liquid manure handling and utilization systems; automated livestock feeding equipment —

A. O. Smith Meter Systems GmbH
Hamburg, Germany

Petroleum meters; valves; strainers; air eliminators —

Canadian Controllers Ltd.
Scarborough, Canada

Clark packaged drives and drive systems for industrial processes; electrical controls for industrial and commercial applications —

Bull Motors Limited
Ipswich, Suffolk, England

Electric motors for elevators, fans and pumps and industrial use; hermetic motors for air conditioning and refrigeration industry —

AgriStor Credit Corporation
Milwaukee, Wisconsin

Installment financing —

AFFILIATES*

Manufacturas Metalicas Monterrey, S. A.
Monterrey, N. L., Mexico

Truck frames; bumpers for pickup trucks; assembled passenger car frames; automotive stampings —

Tada-Smith Company, Ltd.
Osaka, Japan

Residential water heaters and glass-lined hot water storage tanks —

A. O Smith Corporation Of Texas
Houston, Texas

Welded line pipe —

A. O. Smith-Inland Inc.

Powder Metallurgy Division
Milwaukee, Wisconsin

EMP® molding-grade steel powder for precision parts for automotive, appliance and other industries; electrode-grade iron powder —

Reinforced Plastics Division
Little Rock, Arkansas

Silver Thread,™ Red Thread,® Green Thread,® Chemline® and Poly Thread® glass fiber reinforced epoxy and vinylester pipe and fittings; glass fiber reinforced electrical and industrial products —

Howard Harvestore Ltd.
Harleston, Norfolk, England

Harvestore livestock feed and storage systems —

Layne & Bowler (Australasia) Pty. Ltd.
Villa Wood, New South Wales, Australia

Turbine pumps; spray irrigation equipment —

Layne-Bowler Dik Turbin Pompalari, Sanayi ve Ticaret A. S.
Ankara, Turkey

Turbine pumps —

**Of A. O. Smith or its subsidiaries*

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